

DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE OF HAWAII

FINANCIAL STATEMENTS
WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED JUNE 30, 2004

AND

INDEPENDENT AUDITOR'S REPORT

Akamine, Oyadomari & Kosaki
Certified Public Accountants, Inc.

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

March 8, 2005

Mr. Russ K. Saito
Comptroller
Department of Accounting and General Services
State of Hawaii

Dear Mr. Saito:

This is our report on the audit of the financial statements of the Department of Accounting and General Services, State of Hawaii (Department), for the year ended June 30, 2004. Our audit was performed in accordance with the terms of our contract with the Department and with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations and the OMB Circular A-133 Compliance Supplement.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Department of Accounting and General Services, State of Hawaii's, financial statements for the year ended June 30, 2004, and to comply with the requirements of OMB Circular A-133, which established audit requirements for states, local governments and non-profit organizations that receive federal awards.

More specifically, the objectives of the audit were as follows:

1. To satisfy the audit requirements of OMB Circular A-133.
2. To provide a basis for an opinion on the fairness of the presentation of the Department of Accounting and General Services, State of Hawaii's, financial statements.
3. To determine whether expenditures have been made and all revenues and other receipts to which the Department of Accounting and General Services, State of Hawaii, is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and, where applicable, the Federal government.

4. To evaluate the adequacy of the Department of Accounting and General Services, State of Hawaii's, internal control over financial reporting to determine whether there is effective control over and proper accounting of revenues, receipts, expenditures, disbursements, assets, liabilities and federal award programs and to comply with the applicable laws and regulations.
5. To determine whether the Department of Accounting and General Services, State of Hawaii, has complied with the provisions of the federal grant agreements and applicable laws, regulations, and circulars with regard to grant activities.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants and Government Auditing Standards, issued by the Comptroller General of the United States, as they pertain to financial audits. The scope of our audit included a general audit of the financial transactions and accounting records of the Department of Accounting and General Services, State of Hawaii, for the year ended June 30, 2004. In addition, as part of our determination as to whether the Department of Accounting and General Services, State of Hawaii, has effective controls over and proper accounting of revenues, receipts, expenditures, disbursements, assets and liabilities we considered the internal control over financial reporting. We also performed tests to determine the Department of Accounting and General Services, State of Hawaii's, compliance with the fiscal provisions of its grant agreements and applicable laws, regulations and federal circulars.

ORGANIZATION OF THE REPORT

This report is presented in three parts as follows:

- Part I - Financial section
- Part II - Compliance and internal control
- Part III - Schedule of findings and questioned costs

We wish to express our sincere appreciation for the excellent cooperation and assistance extended to us by the staff of the Department of Accounting and General Services, State of Hawaii.

Sincerely,

Akane Ogasawara + Keri CPAs, Inc.

**Department of Accounting and General Services
State of Hawaii**

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**Department of Accounting and General Services
State of Hawaii**

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PART I
FINANCIAL SECTION

FINANCIAL STATEMENTS

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

Independent Auditor's Report

Comptroller
Department of Accounting and General Services
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Department of Accounting and General Services, State of Hawaii, as of and for the year ended June 30, 2004, which collectively comprise the Department's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Department of Accounting and General Services, State of Hawaii. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the proprietary fund types and component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the proprietary fund types and component unit, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A to the financial statements, the financial statements of the Department of Accounting and General Services, State of Hawaii, are intended to present the financial position, the changes in financial position and cash flows, where applicable, and budgetary comparisons, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2004, and the changes in financial position and cash flows, where applicable, and the budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Department of Accounting and General Services, State of Hawaii, as of June 30, 2004, the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general

fund and other major funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 9, 2005 on our consideration of the Department of Accounting and General Services, State of Hawaii's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

We also audited the adjustments described in Note D to the financial statements that were applied to restate the June 30, 2003 net assets. In our opinion, such adjustments are appropriate and have been properly applied.

The Management's Discussion and Analysis on pages 10 through 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Accounting and General Services, State of Hawaii's, basic financial statements. The supplemental information on pages 64 through 67 are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards on page 73 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ahameina Oyedokunri + Rosalbi CPAs, Inc.

Honolulu, Hawaii
February 9, 2005

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
Management's Discussion and Analysis
June 30, 2004

The Department of Accounting and General Services (the Department), State of Hawaii (the State), was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary function of the Department is to provide professional and technical expertise to state agencies and to enforce compliance with accounting and internal control systems.

As management of the Department, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2004. This discussion and analysis is designed to assist the reader in the analysis of the Department's financial activities based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

Government-Wide Highlights

The assets of the Department exceeded its liabilities at June 30, 2004 by \$426,773 (net assets). Of this amount, \$14,971 (unrestricted net assets) may be used to meet the Department's ongoing obligations to citizens and creditors. Net assets of governmental activities decreased by \$48,993 and the net assets of business-type activities decreased by \$3,053, for a net decrease to the Department of \$52,046 from the prior fiscal year.

Fund Highlights

At June 30, 2004, the Department's Governmental Funds reported combined ending fund balances of \$253,611, a decrease of \$47,930 from the prior year. The entire amount represents amounts reserved for specific purposes. The Proprietary Funds reported net assets at June 30, 2004, of \$35,903, a decrease of \$3,053 during the fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the Department's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

JUNE 30, 2004

The statement of activities presents information showing how the Department's net assets changed during the most recent fiscal year. Functional activities are highlighted in this statement, with functional expenses shown net of related program revenue. This statement shows the extent to which the various functions depend on state appropriations and other non-program revenues for support.

Both of the government-wide financial statements distinguish functions of the Department that are principally supported by state appropriations and other non-program revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The business-type activities of the Department include the State Parking Revolving Fund and the State Motor Pool Revolving Fund.

The government-wide financial statements include not only the Department itself (known as the Primary Government), but also the activities of the legally separate Stadium Authority, a component unit of the State that is administratively attached to the Department. Financial information for the Stadium Authority is reported separately from the financial information presented for the Department itself.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into three categories: (1) governmental funds; (2) proprietary funds; and (3) fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Department's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Department's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities in the government-wide financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2004

The Department maintains three major and numerous nonmajor governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Risk Management Fund, and Capital Projects Fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining financial statements immediately following the notes to basic financial statements.

The State Legislature adopts an annual appropriated budget for the Department's General Fund and certain of the Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and the Risk Management Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found immediately following the government-wide statements.

Proprietary Funds

Proprietary funds are used to show activities that operate more like those of commercial enterprises. They are known as Enterprise Funds and Internal Service Funds because they charge fees for services provided to outsiders and other state agencies. They are used to report the same functions presented as business-type activities in the government-wide financial statements. The Department uses an Enterprise Fund to account for the operations of the State Parking Revolving Fund and an Internal Service Fund to account for the operations of the State Motor Pool Revolving Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the State Parking Revolving Fund and the State Motor Pool Revolving Fund.

The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Department. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs.

The basic fiduciary fund financial statements can be found immediately following the proprietary fund financial statements.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the fiduciary fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2004

Other Supplementary Information

Combining Financial Statements

Combining financial statements of General Fund programs and nonmajor Special Revenue funds are presented immediately following the notes to basic financial statements.

Financial Analysis of the Department's Government-Wide Financial Statements

The following financial analysis focuses on the Primary Government (governmental and business-type activities of the Department). Separate financial statements for the Department's Component Unit, including its respective management's discussion and analysis, can be obtained from the Department.

Net assets are a useful indicator of a government's financial position. For the Department, total assets exceed liabilities by \$426,773, and decreased \$52,046 or 10.9%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by \$48,993 or 11.1% and business-type activities had a decrease of \$3,053 or 7.8%. The following table was derived from the government-wide statement of net assets.

Summary of Statement of Net Assets

June 30, 2004 and 2003

(Amounts in thousands)

	Primary Government								
	Governmental Activities			Business-Type Activities			Total		
	2004	2003	Increase (Decrease)	2004	2003	Increase (Decrease)	2004	2003	Increase (Decrease)
		(as restated)						(as restated)	
Assets:									
Current and other									
Assets	\$295,061	\$340,755	\$ (45,694)	\$ 4,804	\$ 6,581	\$ (1,777)	\$299,865	\$347,336	\$ (47,471)
Capital assets	145,168	146,446	(1,278)	33,291	34,783	(1,492)	178,459	181,229	(2,770)
Total assets	<u>\$440,229</u>	<u>\$487,201</u>	<u>\$ (46,972)</u>	<u>\$ 38,095</u>	<u>\$ 41,364</u>	<u>\$ (3,269)</u>	<u>\$478,324</u>	<u>\$528,565</u>	<u>\$ (50,241)</u>
Liabilities:									
Long-term liabilities	\$ 17,711	\$ 20,227	\$ (2,516)	\$ 1,501	\$ 2,236	\$ (735)	\$ 19,212	\$ 22,463	\$ (3,251)
Other liabilities	31,648	27,112	4,536	691	172	519	32,339	27,284	5,055
Total liabilities	<u>\$ 49,359</u>	<u>\$ 47,339</u>	<u>\$ 2,020</u>	<u>\$ 2,192</u>	<u>\$ 2,408</u>	<u>\$ (216)</u>	<u>\$ 51,551</u>	<u>\$ 49,747</u>	<u>\$ 1,804</u>
Net assets:									
Invested in capital									
assets, net of related									
debt	\$145,168	\$146,446	\$ (1,278)	\$ 31,824	\$ 33,046	\$ (1,222)	\$176,992	\$179,492	\$ (2,500)
Restricted	234,810	281,813	(47,003)	-	-	-	234,810	281,813	(47,003)
Unrestricted	10,892	11,604	(712)	4,079	5,910	(1,831)	14,971	17,514	(2,543)
Total net assets	<u>\$390,870</u>	<u>\$439,863</u>	<u>\$ (48,993)</u>	<u>\$ 35,903</u>	<u>\$ 38,956</u>	<u>\$ (3,053)</u>	<u>\$426,773</u>	<u>\$478,819</u>	<u>\$ (52,046)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2004

By far the largest portion of the Department's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Department's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the Department's ongoing obligations to creditors.

At June 30, 2004, the Department is able to report positive balances in all three categories of net assets, both for the Department as a whole, as well as for its separate governmental and business-type activities.

The Department's decrease of \$52,046 in the Department's net assets is explained in the governmental and business-type activities discussion below, and is primarily a result of a decrease in state allotments.

The 2003 net assets were restated due to an adjustment to reverse \$369,476 of buildings and improvements and accumulated depreciation of \$177,193 from capital assets as of July 1, 2003. This resulted in a restatement of \$192,283 to the July 1, 2003 net assets invested in capital assets.

Governmental activities decreased the Department's net assets by \$48,993. Key element of this decrease is a result of an increase in capital outlays.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2004

A comparison of the cost of services by function of the Department's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities:

Summary of Statement of Activities

June 30, 2004 and 2003

(Amounts in thousands)

	Primary Government								
	Governmental Activities			Business - Type Activities			Total		
	2004	2003 (as restated)	Increase (Decrease)	2004	2003	Increase (Decrease)	2004	2003 (as restated)	Increase (Decrease)
Revenues:									
Program revenues:									
Charges for services	\$ 22,178	\$ 15,127	\$ 7,051	\$ 5,661	\$ 5,566	\$ 95	\$ 27,839	\$ 20,693	\$ 7,146
Operating grants and Contributions	656	575	81	-	-	-	656	575	81
General revenues:									
State allotments, net of Lapsed appropriations	201,088	373,609	(172,521)	-	-	-	201,088	373,609	(172,521)
Interest and investment Income	689	795	(106)	110	204	(94)	799	999	(200)
Other	-	281	(281)	(85)	-	(85)	(85)	281	(366)
Total revenues	224,611	390,387	(165,776)	5,686	5,770	(84)	230,297	396,157	(165,860)
Expenses:									
Administration and support	2,259	2,207	52	-	-	-	2,259	2,207	52
State procurement	1,068	2,043	(975)	-	-	-	1,068	2,043	(975)
Public building maintenance	17,050	24,656	(7,606)	-	-	-	17,050	24,656	(7,606)
Accounting	2,141	2,431	(290)	-	-	-	2,141	2,431	(290)
Audit	1,429	1,689	(260)	-	-	-	1,429	1,689	(260)
Performing and visual arts	4,427	4,745	(318)	-	-	-	4,427	4,745	(318)
School repairs and Maintenance	27,467	32,068	(4,601)	-	-	-	27,467	32,068	(4,601)
Office leasing	15,958	15,692	266	-	-	-	15,958	15,692	266
Information processing Services	15,502	12,495	3,007	-	-	-	15,502	12,495	3,007
Communications	295	2,065	(1,770)	-	-	-	295	2,065	(1,770)
Parking control	-	-	-	3,803	3,821	(18)	3,803	3,821	(18)
Motor pool	-	-	-	1,807	1,548	259	1,807	1,548	259
Other	18,049	13,443	4,606	-	-	-	18,049	13,443	4,606
Capital outlays	223,699	285,398	(61,699)	-	-	-	223,699	285,398	(61,699)
Total expenses	329,344	398,932	(69,588)	5,610	5,369	241	334,954	404,301	(69,347)
Increase (decrease) in net assets before transfers	(104,733)	(8,545)	(96,188)	76	401	(325)	(104,657)	(8,144)	(96,513)
Transfers	55,740	(14,790)	70,530	(3,129)	(3,616)	487	52,611	(18,406)	71,017
Change in net assets	(48,993)	(23,335)	(25,658)	(3,053)	(3,215)	162	(52,046)	(26,550)	(25,496)
Net assets, beginning of year as previously reported	439,863	655,481	(215,618)	38,956	42,171	(3,215)	478,819	697,652	(218,833)
Restatement for buildings allocated to other agencies	-	(192,283)	192,283	-	-	-	-	(192,283)	192,283
Net assets, as restated	439,863	463,198	(23,335)	38,956	42,171	(3,215)	478,819	505,369	(26,550)
Net assets, end of year	\$390,870	\$439,863	\$ (48,993)	\$ 35,903	\$ 38,956	\$ (3,053)	\$426,773	\$478,819	\$ (52,046)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2004

The decrease of \$52,046 in the Department's net assets is explained in the governmental and business-type activities discussion below, and is primarily a result of an increase in capital outlays.

Business-type activities decreased the Department's net assets by \$3,053 or 1.25%, during the current fiscal year. Key elements of this decrease are as follows:

- The operations of the State Parking Revolving Fund resulted in a decrease in net assets of \$2,435.
- That decrease was increased by a decrease in net assets of \$618 from the operations of the State Motor Pool Revolving Fund.

Financial Analysis of the Department's Individual Funds

As noted earlier, the Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Department's net resources available for spending at the end of the fiscal year.

Comparison of Governmental Fund Balance Sheets

June 30, 2004 and 2003
(amounts in thousands)

	2004	2003	Increase (Decrease)
Assets			
General Fund	\$ 24,890	\$ 23,156	\$ 1,734
Risk Management Fund	8,189	7,664	525
Capital Projects Fund	238,521	296,891	(58,370)
Other Funds	23,462	13,044	10,418
Total	<u>\$ 295,062</u>	<u>\$ 340,755</u>	<u>\$ (45,693)</u>
Liabilities			
General Fund	\$ 6,089	\$ 3,428	\$ 2,661
Risk Management Fund	12,328	12,307	21
Capital Projects Fund	22,202	22,545	(343)
Other Funds	832	934	(102)
Total Liabilities	<u>\$ 41,451</u>	<u>\$ 39,214</u>	<u>\$ 2,237</u>
Fund Balances			
General Fund	\$ 18,801	\$ 19,728	\$ (927)
Risk Management Fund	(4,139)	(4,643)	504
Capital Projects Fund	216,319	274,346	(58,027)
Other Funds	22,630	12,110	10,520
Total Fund Balances	<u>\$ 253,611</u>	<u>\$ 301,541</u>	<u>\$ (47,930)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2004

As of the end of the current fiscal year, the Department's governmental funds reported combined ending fund balances of \$253,611, a decrease of \$47,930 in comparison with the prior fiscal year. There was a deficit of \$34,605 in the unreserved fund balance at June 30, 2004. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period or are legally segregated for a specific future use (\$127,851), (2) for inventories (\$1,375), or (3) for encumbrances (\$158,991).

Comparison of Revenues, Expenditures and Changes in Fund Balances

June 30, 2004 and 2003

(amounts in thousands)

	2004	2003	Increase (Decrease)
Revenues			
General Fund	\$ 78,791	\$ 77,792	\$ 999
Risk Management Fund	11,291	9,098	2,193
Capital Projects Fund	125,973	302,271	(176,298)
Other Funds	12,231	8,759	3,472
Total Revenues	<u>228,286</u>	<u>397,920</u>	<u>(169,634)</u>
Expenditures			
General Fund	77,710	80,655	(2,945)
Risk Management Fund	8,750	8,558	192
Capital Projects Fund	222,755	286,297	(63,542)
Other Funds	19,079	6,312	12,767
Total Expenditures	<u>328,294</u>	<u>381,822</u>	<u>(53,528)</u>
Other Financing Sources (Uses)			
General Fund	1,561	4,255	(2,694)
Risk Management Fund	(2,037)	355	(2,392)
Capital Projects Fund	38,863	(23,355)	62,218
Other Funds	17,367	810	16,557
Total Other Financing Sources (Uses)	<u>55,754</u>	<u>(17,935)</u>	<u>73,689</u>
Lapsed Appropriations			
General Fund	(3,568)	(4,388)	820
Risk Management Fund	-	-	-
Capital Projects Fund	(108)	-	(108)
Other Funds	-	-	-
Total Lapsed Appropriations	<u>(3,676)</u>	<u>(4,388)</u>	<u>712</u>
Net Change in Fund Balances			
General Fund	(926)	(2,996)	2,070
Risk Management Fund	504	895	(391)
Capital Projects Fund	(58,027)	(7,381)	(50,646)
Other Funds	10,519	3,257	7,262
	<u>\$ (47,930)</u>	<u>\$ (6,225)</u>	<u>\$ (41,705)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2004

The General Fund is the chief operating fund of the Department. At the end of the current fiscal year, the General Fund had no unreserved fund balance, but total fund balance reached \$18,801. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 0% of total General Fund expenditures, while total fund balance represents 24.19% of that same amount.

The fund balance of the Department's General Fund decreased by \$926 during the current fiscal year due primarily to lapsed appropriations (\$3,568), which were offset by net transfers in (\$1,561).

Proprietary Funds

The Department's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the current fiscal year, the State Parking Revolving Fund had a decrease in net assets which amounted to \$2,435 and the State Motor Pool Revolving Fund had a decrease in net assets which amounted to \$618. Other factors concerning the finances of the State Parking Revolving fund and the State Motor Pool Revolving Fund have already been addressed in the discussion of the Department's business-type activities.

Fiduciary Funds

The fiduciary funds of the Department consist of Agency Funds which are clearing accounts for funds held by the Department in its role as custodian until the funds are allocated to the individuals, businesses, and others to which they belong. These funds are excluded from the Department's government-wide financial statements because the Department cannot use these funds to finance its operations.

General Fund Budgetary Highlights

There was no change to the General Fund's expenditure budget from the original to the final budget. The original budget consists of the appropriations contained in the Supplemental Appropriations Act of 2002 (Act 177, Session Laws of Hawaii 2002) and the General Appropriations Act of 2003 (Act 200, Session Laws of Hawaii 2003).

Capital Asset and Debt Administration

Capital Assets

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to \$178,458 (net of accumulated depreciation). This investment in capital assets includes land and improvements, historic treasures, works of art, buildings and improvements, equipment, furniture and fixtures, and motor vehicles.

In prior years, the Department reported certain buildings, utilized by other State Agencies, as a capital asset on its financial statements. The Department is the owner of record and repairs and maintains these buildings. The State's financial reporting policy requires departments to record as capital assets allocated portions of the State office buildings the departments occupy. The Department overstated its July 1, 2003 building and improvements balance by \$369,476 and the

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2004

related accumulated depreciation by \$177,193. This resulted in a restatement of \$192,283 to the July 1, 2003 net assets invested in capital assets.

A summary of the Department's capital assets is as follows:

Summary of Capital Assets

June 30, 2004 and 2003

(amounts in thousands)

	Governmental Activities			Business - Type Activities		
	2004	2003 (as restated)	Increase (Decrease)	2004	2003 (as restated)	Increase (Decrease)
Capital assets not being depreciated						
Land and improvements	\$ 88,404	\$ 88,404	\$ -	\$ 10,271	\$ 10,271	\$ -
Historical treasures	24,504	24,504	-	-	-	-
Works of art	15,557	15,557	-	-	-	-
Construction in progress	-	-	-	26	41	(15)
Total capital assets not being depreciated	128,465	128,465	-	10,297	10,312	(15)
Capital assets being depreciated						
Buildings and improvements	31,500	31,500	-	54,328	54,162	166
Equipment, furniture and fixtures	7,112	7,326	(214)	170	150	20
Motor vehicles	3,879	3,963	(84)	4,695	4,527	168
Total capital assets being depreciated	42,491	42,789	(298)	59,193	58,839	354
Less total accumulated depreciation	(25,788)	(24,808)	(980)	(36,200)	(34,368)	(1,832)
Total capital assets being depreciated, net	16,703	17,981	(1,278)	22,993	24,471	(1,478)
Total capital assets, net	\$ 145,168	\$ 146,446	\$ (1,278)	\$ 33,290	\$ 34,783	\$ (1,493)

Debt Administration

At the end of the current fiscal year, the Department had total bonded debt outstanding of \$1,466. This amount comprises debt backed by the full faith and credit of the State allocated to the State Parking Revolving Fund under acts of various Session Laws of Hawaii. Repayment of allocated bond debt is made to the State's General Fund. A breakdown of the Department's total long-term obligations is shown below:

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2004

Long-term Obligations

June 30, 2004 and 2003
(amounts in thousands)

	Governmental Activities			Business - Type Activities		
	2004	2003	Increase (Decrease)	2004	2003	Increase (Decrease)
Accrued Vacation	\$ 7,909	\$ 8,124	\$ (215)	\$ 283	\$ 222	\$ 61
General Obligation Bonds	-	-	-	1,466	1,738	(272)
Total Long-term Debt	<u>\$ 7,909</u>	<u>\$ 8,124</u>	<u>\$ (215)</u>	<u>\$ 1,749</u>	<u>\$ 1,960</u>	<u>\$ (211)</u>

The Department's total debt decreased by \$272 (15.63%) during the current fiscal year. The key factor in this decrease was the repayments made to the State's General Fund on the allocated bond debt of the State Parking Revolving fund.

The State's general obligation bonds have been rated by Moody's Investors Service (Aaa), by Standard & Poor's Corporation (AAA), and by Fitch IBCA, Inc. (AAA).

Additional information on the Department's long-term debt can be found in Note E of the notes to basic financial statements.

Economic Factors and Next Year's Budget

The State's General Fund tax revenues increased \$239.4 million for the first five months of fiscal year 2005. The State's General Fund tax revenues growth rate is estimated at 8.8% in fiscal 2005 and 5.3% in fiscal 2006. While the current condition of Hawaii's economy is good, the projected growth in tax revenues remains a concern. Based on this concern and increasing fixed costs, the Governor has imposed a 1% across-the-board restriction on all General Fund discretionary expenditures of all Executive Branch departments and agencies for fiscal 2005. Consultant and personal services contracts greater than \$25,000 and the filling of nonessential positions continue to require the approval of the Governor and other expenditure controls implemented in fiscal 2004 continue to be in force.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Department of Accounting and General Services, P.O. Box 119, Honolulu, Hawaii 96810-0119. General information about the Department can be found at the Department's website, <http://www.state.hi.us>.

Department of Accounting and General Services
State of Hawaii
Statement of Net Assets
June 30, 2004

	Primary Government				Total
	Governmental	Business-Type		Component Unit	Reporting Entity
	Activities	Activities	Total		
ASSETS					
CURRENT ASSETS:					
Cash and short-term cash investments held in State Treasury (Note C)	\$ 293,478,363	\$ 4,429,528	\$ 297,907,891	\$ 2,735,879	\$ 300,643,770
Cash in bank and on hand	-	-	-	616,813	616,813
Receivables - net	-	355,187	355,187	478,188	833,375
Inventories and other assets	1,374,902	19,369	1,394,271	-	1,394,271
Due from other agencies	208,315	-	208,315	-	208,315
NONCURRENT ASSETS:					
Capital assets:					
Land, buildings and other capital assets, net of depreciation (Note D)	145,167,552	33,290,430	178,457,982	47,624,894	226,082,876
Cash held by other state agency	-	-	-	1,202,139	1,202,139
Total assets	<u>\$ 440,229,132</u>	<u>\$ 38,094,514</u>	<u>\$ 478,323,646</u>	<u>\$ 52,657,913</u>	<u>\$ 530,981,559</u>
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	\$ 19,943,219	\$ 165,596	\$ 20,108,815	\$ 187,020	\$ 20,295,835
Accrued wages and employee benefits payable	1,872,255	64,325	1,936,580	224,069	2,160,649
Contract retainage	7,532,287	-	7,532,287	-	7,532,287
Accrued liabilities and other	-	32,265	32,265	194,742	227,007
Accrued vacation - current (Note E)	2,300,000	58,353	2,358,353	156,947	2,515,300
General obligation bonds payable - current (Note E)	-	369,874	369,874	-	369,874
NONCURRENT LIABILITIES :					
Due to State of Hawaii	-	140,962	140,962	-	140,962
Due to others (Note G)	12,102,524	-	12,102,524	-	12,102,524
Deposits	-	17,405	17,405	49,200	66,605
Accrued liabilities and other	-	21,800	21,800	-	21,800
Accrued vacation - noncurrent (Note E)	5,608,648	224,747	5,833,395	279,988	6,113,383
General obligation bonds payable - noncurrent (Note E)	-	1,096,332	1,096,332	-	1,096,332
Total liabilities	<u>49,358,933</u>	<u>2,191,659</u>	<u>51,550,592</u>	<u>1,091,966</u>	<u>52,642,558</u>
Commitments and contingencies (Notes F, G and H)					
NET ASSETS					
Invested in capital assets, net of related debt	145,167,552	31,824,224	176,991,776	47,624,894	224,616,670
Restricted for:					
Capital improvement projects	216,319,301	-	216,319,301	-	216,319,301
Other purposes	18,490,786	-	18,490,786	-	18,490,786
Unrestricted	<u>10,892,560</u>	<u>4,078,631</u>	<u>14,971,191</u>	<u>3,941,053</u>	<u>18,912,244</u>
Total net assets	<u>390,870,199</u>	<u>35,902,855</u>	<u>426,773,054</u>	<u>51,565,947</u>	<u>478,339,001</u>
Total liabilities and net assets	<u>\$ 440,229,132</u>	<u>\$ 38,094,514</u>	<u>\$ 478,323,646</u>	<u>\$ 52,657,913</u>	<u>\$ 530,981,559</u>

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii
Statement of Activities
for the year ended June 30, 2004

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
Administration and support	\$ 2,259,097	\$ -	\$ -	\$ -	\$ (2,259,097)	\$ -	\$ (2,259,097)	
State procurement	1,067,927	-	-	-	(1,067,927)	-	(1,067,927)	
Public building maintenance	17,050,461	-	-	-	(17,050,461)	-	(17,050,461)	
Accounting	2,140,745	-	-	-	(2,140,745)	-	(2,140,745)	
Audit	1,428,982	-	-	-	(1,428,982)	-	(1,428,982)	
Performing and visual arts	4,427,141	-	546,900	-	(3,880,241)	-	(3,880,241)	
School repairs and maintenance	27,467,355	-	-	-	(27,467,355)	-	(27,467,355)	
Office leasing	15,958,174	5,202,443	-	-	(10,755,731)	-	(10,755,731)	
Information processing services	15,501,709	-	-	-	(15,501,709)	-	(15,501,709)	
Communications	294,797	-	-	-	(294,797)	-	(294,797)	
Other	18,049,076	16,975,523	108,885	-	(964,668)	-	(964,668)	
Capital outlays	223,698,626	-	-	-	(223,698,626)	-	(223,698,626)	
Total governmental activities	329,344,090	22,177,966	655,785	-	(306,510,339)	-	(306,510,339)	
Business-type activities:								
State Parking Revolving Fund	3,803,467	3,609,263	-	-	-	(194,204)	(194,204)	
State Motor Pool Revolving Fund	1,806,818	2,051,661	-	-	-	244,843	244,843	
Total business-type activities	5,610,285	5,660,924	-	-	-	50,639	50,639	
Total primary government	<u>\$ 334,954,375</u>	<u>\$ 27,838,890</u>	<u>\$ 655,785</u>	<u>\$ -</u>	<u>(306,510,339)</u>	<u>50,639</u>	<u>(306,459,700)</u>	
Component unit:								
Stadium Authority	<u>\$ 10,341,346</u>	<u>\$ 7,506,769</u>	<u>\$ -</u>	<u>\$ 1,303,968</u>				<u>\$ (1,530,609)</u>
General revenues:								
State allotted appropriations, net of lapsed appropriations of \$3,676,593					201,088,020	-	201,088,020	-
Interest and investment income					689,077	109,507	798,584	71,336
Other					-	(84,490)	(84,490)	-
Total general revenues before transfers					201,777,097	25,017	201,802,114	71,336
Transfers, net					55,740,488	(3,128,506)	52,611,982	-
Total general revenues and transfers					257,517,585	(3,103,489)	254,414,096	71,336
Change in net assets					(48,992,754)	(3,052,850)	(52,045,604)	(1,459,273)
Net assets at July 1, 2003, as previously reported					632,146,222	38,955,705	671,101,927	53,025,220
Restatement for buildings allocated to other agencies (Note D)					(192,283,269)	-	(192,283,269)	-
Net assets at July 1, 2003, as restated					439,862,953	38,955,705	478,818,658	53,025,220
Net assets at June 30, 2004					\$ 390,870,199	\$ 35,902,855	\$ 426,773,054	\$ 51,565,947

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii
Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Risk Management Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term cash investments held in State Treasury (Note C)	\$ 23,514,882	\$ 8,188,566	\$ 238,520,996	\$ 23,253,919	\$ 293,478,363
Inventories	1,374,902	-	-	-	1,374,902
Due from other agencies	-	-	-	208,315	208,315
Total assets	<u>\$ 24,889,784</u>	<u>\$ 8,188,566</u>	<u>\$ 238,520,996</u>	<u>\$ 23,462,234</u>	<u>\$ 295,061,580</u>
LIABILITIES					
Vouchers and contracts payable	\$ 4,276,738	\$ 225,121	\$ 14,669,408	\$ 771,952	\$ 19,943,219
Accrued wages and employee benefits payable	1,811,838	-	-	60,417	1,872,255
Contract retainage	-	-	7,532,287	-	7,532,287
Due to others (Note G)	-	12,102,524	-	-	12,102,524
Total liabilities	<u>6,088,576</u>	<u>12,327,645</u>	<u>22,201,695</u>	<u>832,369</u>	<u>41,450,285</u>
Commitments and contingencies (Notes F, G and H)					
FUND BALANCES					
Reserved for:					
Encumbrances	20,008,388	38,813	130,925,892	8,017,858	158,990,951
Inventories	1,374,902	-	-	-	1,374,902
Continuing appropriations	-	-	127,850,754	-	127,850,754
Unreserved	<u>(2,582,082)</u>	<u>(4,177,892)</u>	<u>(42,457,345)</u>	<u>14,612,007</u>	<u>(34,605,312)</u>
Total fund balances	<u>18,801,208</u>	<u>(4,139,079)</u>	<u>216,319,301</u>	<u>22,629,865</u>	<u>253,611,295</u>
Total liabilities and fund balances	<u>\$ 24,889,784</u>	<u>\$ 8,188,566</u>	<u>\$ 238,520,996</u>	<u>\$ 23,462,234</u>	<u>\$ 295,061,580</u>

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2004

	General Fund	Risk Management Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
State allotted appropriations	\$ 78,791,393	\$ -	\$ 125,973,220	\$ -	\$ 204,764,613
Insurance	-	10,993,030	-	-	10,993,030
Rentals	-	-	-	5,202,443	5,202,443
Interest and investment income	-	298,579	-	390,498	689,077
Intergovernmental	-	-	-	655,785	655,785
Other	-	(250)	-	5,982,743	5,982,493
Total revenues	<u>78,791,393</u>	<u>11,291,359</u>	<u>125,973,220</u>	<u>12,231,469</u>	<u>228,287,441</u>
EXPENDITURES					
Administration and support	2,199,288	-	-	50,443	2,249,731
State procurement	1,065,316	-	-	-	1,065,316
Public building maintenance	15,487,016	-	-	1,472,582	16,959,598
Accounting	2,115,604	-	-	-	2,115,604
Audit	1,415,539	-	-	-	1,415,539
Performing and visual arts	1,733,735	-	-	2,456,904	4,190,639
School repairs and maintenance	24,256,496	-	-	3,109,818	27,366,314
Office leasing	10,093,578	-	-	5,861,632	15,955,210
Information processing services	14,034,694	-	-	1,010,062	15,044,756
Communications	294,797	-	-	-	294,797
Other	5,014,197	8,750,288	-	4,173,332	17,937,817
Capital outlays	-	-	222,755,017	943,609	223,698,626
Total expenditures	<u>77,710,260</u>	<u>8,750,288</u>	<u>222,755,017</u>	<u>19,078,382</u>	<u>328,293,947</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,081,133</u>	<u>2,541,071</u>	<u>(96,781,797)</u>	<u>(6,846,913)</u>	<u>(100,006,506)</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	5,326,276	4,893,634	92,304,176	24,282,703	126,806,789
Operating transfers out	(3,765,733)	(6,930,653)	(53,440,922)	(6,915,962)	(71,053,270)
Total other financing sources (uses)	<u>1,560,543</u>	<u>(2,037,019)</u>	<u>38,863,254</u>	<u>17,366,741</u>	<u>55,753,519</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>2,641,676</u>	<u>504,052</u>	<u>(57,918,543)</u>	<u>10,519,828</u>	<u>(44,252,987)</u>
OTHER CHANGES IN FUND EQUITY					
Lapsed appropriations	(3,568,232)	-	(108,361)	-	(3,676,593)
Net change in fund balances	(926,556)	504,052	(58,026,904)	10,519,828	(47,929,580)
FUND BALANCES AT JULY 1, 2003	<u>19,727,764</u>	<u>(4,643,131)</u>	<u>274,346,205</u>	<u>12,110,037</u>	<u>301,540,875</u>
FUND BALANCES AT JUNE 30, 2004	<u>\$ 18,801,208</u>	<u>\$ (4,139,079)</u>	<u>\$ 216,319,301</u>	<u>\$ 22,629,865</u>	<u>\$ 253,611,295</u>

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets
June 30, 2004

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets
ASSETS				
CURRENT ASSETS:				
Cash and short-term cash investments held in State Treasury	\$ 293,478,363	\$ -	\$ -	\$ 293,478,363
Inventories	1,374,902	-	-	1,374,902
Due from other agencies	208,315	-	-	208,315
NONCURRENT ASSETS:				
Capital assets:				
Land, buildings, and other capital assets, net of depreciation	-	145,167,552 (1)	-	145,167,552
Total assets	<u>\$ 295,061,580</u>	<u>\$ 145,167,552</u>	<u>\$ -</u>	<u>\$ 440,229,132</u>
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	\$ 19,943,219	\$ -	\$ -	\$ 19,943,219
Accrued wages and employee benefits payable	1,872,255	-	-	1,872,255
Contract retainage	7,532,287	-	-	7,532,287
Accrued vacation - current	-	2,300,000 (2)	-	2,300,000
NONCURRENT LIABILITIES:				
Due to others	12,102,524	-	-	12,102,524
Accrued vacation - noncurrent	-	5,608,648 (2)	-	5,608,648
Total liabilities	<u>41,450,285</u>	<u>7,908,648</u>	<u>-</u>	<u>49,358,933</u>
FUND BALANCES/NET ASSETS				
Invested in capital assets, net of related debt	-	338,729,480 (1)	-	145,167,552
		(192,283,269) (1)	-	
		137,318 (1)	-	
		(3,838) (1)	-	
		(13,031) (1)	-	
		(1,399,108) (1)	-	
Reserved/Restricted for:				
Encumbrances	158,990,951	-	(158,990,951) (3)	-
Inventories	1,374,902	-	(1,374,902) (3)	-
Continuing appropriations	127,850,754	-	(127,850,754) (3)	-
Capital improvement projects	-	-	216,319,301 (3)	216,319,301
Other purposes	-	-	18,490,786 (3)	18,490,786
Unreserved/Unrestricted:	(34,605,312)	(8,124,133) (2)	53,406,520 (3)	10,892,560
		215,485 (2)	-	
Total fund balances/net assets	<u>253,611,295</u>	<u>137,258,904</u>	<u>-</u>	<u>390,870,199</u>
Total liabilities and fund balances/net assets	<u>\$ 295,061,580</u>	<u>\$ 145,167,552</u>	<u>\$ -</u>	<u>\$ 440,229,132</u>

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets
June 30, 2004 (continued)

Total fund balances - governmental funds \$ 253,611,295

Amounts reported for governmental activities in the statement of net assets
are different because:

- (1) Capital assets used in governmental activities are not financial resources and
therefore are not reported in the governmental funds. These assets consist of:

Land and improvements	\$	88,404,189	
Historical treasures and works of art		40,061,763	
Buildings and improvements		31,499,410	
Equipment, furniture and fixtures, and motor vehicles		10,990,376	
Accumulated depreciation		<u>(25,788,186)</u>	
Total capital assets			145,167,552

- (2) Accrued vacation is not reported in the governmental funds. (7,908,648)

- (3) Reclassify reserved fund balance/net assets to unrestricted
fund balance/net assets -

Total net assets \$ 390,870,199

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
for the year ended June 30, 2004

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
REVENUES				
State allotted appropriations	\$ 204,764,613	\$ -	\$ (3,676,593) (3)	\$ 201,088,020
Insurance	10,993,030	-	-	10,993,030
Rentals	5,202,443	-	-	5,202,443
Interest and investment income	689,077	-	-	689,077
Intergovernmental	655,785	-	-	655,785
Other	5,982,493	-	-	5,982,493
Total revenues	228,287,441	-	(3,676,593)	224,610,848
EXPENDITURES				
Administration and support	2,249,731	(105,707) (1) 126,226 (1) (11,153) (2)	-	2,259,097
State procurement	1,065,316	29,813 (1) (27,202) (2)	-	1,067,927
Public building maintenance	16,959,598	103,132 (1) (12,269) (2)	-	17,050,461
Accounting	2,115,604	41,132 (1) (15,991) (2)	-	2,140,745
Audit	1,415,539	7,706 (1) 5,737 (2)	-	1,428,982
Performing and visual arts	4,190,639	231,346 (1) 5,156 (2)	-	4,427,141
School repairs and maintenance	27,366,314	105,131 (1) (4,090) (2)	-	27,467,355
Office leasing	15,955,210	2,964 (1)	-	15,958,174
Information processing services	15,044,756	(31,611) (1) 3,838 (1) 517,929 (1) (33,203) (2)	-	15,501,709
Communications	294,797	-	-	294,797
Other	17,937,817	233,729 (1) (122,470) (2)	-	18,049,076
Capital outlays - construction	223,698,626	-	-	223,698,626
Total expenditures	328,293,947	1,050,143	-	329,344,090
	(100,006,506)	(1,050,143)	(3,676,593)	(104,733,242)
OTHER FINANCING SOURCES (USES) AND OTHER CHANGES				
Net operating transfers	55,753,519	(13,031) (1)	-	55,740,488
Lapsed appropriations	(3,676,593)	-	3,676,593 (3)	-
Change in fund balances/net assets	\$ (47,929,580)	\$ (1,063,174)	\$ -	\$ (48,992,754)

The accompanying notes are an integral part of the financial statements

**Department of Accounting and General Services
State of Hawaii**

**Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
for the year ended June 30, 2004 (continued)**

Change in fund balances - governmental funds	\$	(47,929,580)
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Amounts reported for governmental activities in the
statement of activities are different because:

- (1) Equipment purchases are reported as expenditures in governmental funds, however in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these purchases are:

Equipment purchases	\$	137,318	
Loss on disposal of equipment		(3,838)	
Transfers and adjustments		(13,031)	
Depreciation expense		(1,399,108)	
Excess of depreciation expense over capital outlays			(1,278,659)

- | | | |
|---|--|---------|
| (2) The decrease in accrued vacation is not reported in governmental funds. | | 215,485 |
|---|--|---------|

- | | | |
|---|--|---|
| (3) Lapsed appropriations are net against appropriations in the statement of activities | | - |
|---|--|---|

Change in net assets	\$	(48,992,754)
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The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii
Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis)
General Fund
for the year ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
Revenues	\$ 78,791,393	\$ 78,791,393	\$ 78,791,393	\$ -
Expenditures:				
Administration and support	2,180,688	2,180,688	2,062,186	118,502
State procurement	1,043,020	1,043,020	1,013,705	29,315
Public building maintenance	14,959,950	14,959,950	14,895,351	64,599
Accounting	2,331,496	2,331,496	2,071,818	259,678
Audit	1,348,466	1,348,466	1,316,837	31,629
Performing and visual arts	1,899,595	1,899,595	1,765,090	134,505
School repairs and maintenance	22,989,693	22,989,693	22,970,652	19,041
Office leasing	11,834,547	11,834,547	11,824,110	10,437
Information processing services	14,603,159	14,603,159	14,591,808	11,351
Communications	-	-	-	-
Other	5,600,779	5,600,779	5,493,486	107,293
Total expenditures	78,791,393	78,791,393	78,005,043	786,350
Excess of revenues over expenditures	\$ -	\$ -	\$ 786,350	\$ 786,350

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii
Statement of Revenues and Expenditures - Budget and Actual -
Other Major Funds
for the year ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
<u>Risk Management Fund</u>				
Revenues	\$ 10,450,000	\$ 10,450,000	\$ 11,291,359	\$ 841,359
Expenditures:				
Other	<u>10,450,000</u>	<u>10,450,000</u>	<u>8,484,817</u>	<u>1,965,183</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,806,542</u>	<u>\$ 2,806,542</u>

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii
Statement of Net Assets
Proprietary Funds
June 30, 2004

	<u>State Parking Revolving Fund</u>	<u>State Motor Pool Revolving Fund</u>	<u>Total Proprietary Funds</u>
ASSETS			
Current assets:			
Cash and short-term cash investments held in			
State Treasury (Note C)	\$ 2,541,192	\$ 1,888,336	\$ 4,429,528
Accounts receivable - net	148,865	206,322	355,187
Inventories and other assets	5,690	13,679	19,369
Noncurrent assets:			
Capital assets:			
Land, improvements, construction-in-progress and other capital assets, net of depreciation (Note E)	30,783,336	2,507,094	33,290,430
Total assets	<u>\$ 33,479,083</u>	<u>\$ 4,615,431</u>	<u>\$ 38,094,514</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 121,040	\$ 44,556	\$ 165,596
Accrued wages and employee benefits payable	41,883	22,442	64,325
Accrued liabilities and other	32,265	-	32,265
Accrued vacation - current	37,628	20,725	58,353
General obligation bonds payable - current	369,874	-	369,874
Noncurrent liabilities:			
Due to State of Hawaii	140,962	-	140,962
Deposits	17,405	-	17,405
Accrued liabilities and other	13,100	8,700	21,800
Accrued vacation - noncurrent	144,098	80,649	224,747
General obligation bonds payable - noncurrent	1,096,332	-	1,096,332
Total liabilities	2,014,587	177,072	2,191,659
Commitments and contingencies			
NET ASSETS			
Invested in capital assets, net of related debt	29,317,130	2,507,094	31,824,224
Unrestricted	2,147,366	1,931,265	4,078,631
Total net assets	<u>31,464,496</u>	<u>4,438,359</u>	<u>35,902,855</u>
Total liabilities and net assets	<u>\$ 33,479,083</u>	<u>\$ 4,615,431</u>	<u>\$ 38,094,514</u>

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
for the year ended June 30, 2004

	State Parking Revolving Fund	State Motor Pool Revolving Fund	Total Proprietary Funds
OPERATING REVENUES			
Parking assessments	\$ 2,602,175	\$ -	\$ 2,602,175
Motor vehicle rentals	-	1,827,715	1,827,715
Parking meter collections	811,529	-	811,529
Traffic fines	171,525	-	171,525
Motor vehicle repairs	-	223,946	223,946
Other income	24,034	-	24,034
	<u>3,609,263</u>	<u>2,051,661</u>	<u>5,660,924</u>
Total operating revenues			
OPERATING EXPENSES			
Depreciation	1,667,155	628,025	2,295,180
Personnel services	1,019,957	573,868	1,593,825
Repairs and maintenance	566,617	150,844	717,461
Gas and oil	-	266,233	266,233
Special assessments	66,461	56,733	123,194
Other	483,277	131,115	614,392
	<u>3,803,467</u>	<u>1,806,818</u>	<u>5,610,285</u>
Total operating expenses			
Operating income (loss)	(194,204)	244,843	50,639
NONOPERATING REVENUES (EXPENSES)			
Interest income	61,092	48,415	109,507
Gain on disposition of capital assets	-	16,958	16,958
Assessment on ceded land revenues	(22,896)	-	(22,896)
Interest expense	(80,616)	-	(80,616)
Other	2,064	-	2,064
	<u>(40,356)</u>	<u>65,373</u>	<u>25,017</u>
Total nonoperating revenues - net			
Change in net assets before transfers	(234,560)	310,216	75,656
Operating transfers, net	<u>(2,200,000)</u>	<u>(928,506)</u>	<u>(3,128,506)</u>
Change in net assets	(2,434,560)	(618,290)	(3,052,850)
Net assets at July 1, 2003	33,899,056	5,056,649	38,955,705
Net assets at June 30, 2004	<u>\$ 31,464,496</u>	<u>\$ 4,438,359</u>	<u>\$ 35,902,855</u>

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii
Statement of Cash Flows
Proprietary Funds
June 30, 2004

	<u>State Parking Revolving Fund</u>	<u>State Motor Pool Revolving Fund</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from parking assessments	\$ 2,599,459	\$ -	\$ 2,599,459
Receipts from motor vehicle rentals	-	1,889,146	1,889,146
Receipts from parking meter collections	810,816	-	810,816
Receipts from motor vehicle repairs	-	223,946	223,946
Receipts from traffic fines	171,525	-	171,525
Other receipts	27,209	-	27,209
Payments for personnel services	(972,092)	(549,581)	(1,521,673)
Payments for repairs and maintenance	(566,617)	(150,844)	(717,461)
Payments for gas and oil	-	(266,233)	(266,233)
Payments for special assessment	(66,461)	(56,733)	(123,194)
Other administrative payments	(394,775)	(235,693)	(630,468)
Net cash provided by operating activities	<u>1,609,064</u>	<u>854,008</u>	<u>2,463,072</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest from investments and pooled funds	<u>61,092</u>	<u>48,415</u>	<u>109,507</u>
Net cash provided by investing activities	<u>61,092</u>	<u>48,415</u>	<u>109,507</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from disposal of equipment	-	135,773	135,773
Payments for construction in progress, net of completed repairs	14,703	-	14,703
Advance refunding on general obligation bonds	2,064	-	2,064
Ceded land payment	(22,764)	-	(22,764)
Interest paid on general obligation bonds	(86,567)	-	(86,567)
General obligation bond and interest receivable	(112,563)	-	(112,563)
Principal paid on general obligation bonds	(271,600)	-	(271,600)
Acquisition of capital assets	(175,499)	(788,877)	(964,376)
Net cash used in capital and related financing activities	<u>(652,226)</u>	<u>(653,104)</u>	<u>(1,305,330)</u>
Cash flows from noncapital financing activities:			
Operating transfers out to general fund	<u>(2,200,000)</u>	<u>(900,000)</u>	<u>(3,100,000)</u>
Net cash used in noncapital financing activities	<u>(2,200,000)</u>	<u>(900,000)</u>	<u>(3,100,000)</u>
Net decrease in cash and cash equivalents	(1,182,070)	(650,681)	(1,832,751)
Cash and cash equivalents at July 1, 2003	<u>3,723,262</u>	<u>2,539,017</u>	<u>6,262,279</u>
Cash and cash equivalents at June 30, 2004	<u>\$ 2,541,192</u>	<u>\$ 1,888,336</u>	<u>\$ 4,429,528</u>

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii
Statement of Cash Flows (continued)
Proprietary Funds
June 30, 2004

	<u>State Parking Revolving Fund</u>	<u>State Motor Pool Revolving Fund</u>	<u>Total Proprietary Funds</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income (loss) from operations	\$ (194,204)	\$ 244,843	\$ 50,639
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:			
Depreciation	1,667,155	628,025	2,295,180
(Increase) decrease in assets:			
Accounts receivable - net	(3,429)	61,431	58,002
Inventories and other assets	(810)	(325)	(1,135)
Increase (decrease) in liabilities:			
Accounts payable	97,512	(104,252)	(6,740)
Accrued wages and employee benefits payable	3,354	(737)	2,617
Accrued vacation	36,311	25,023	61,334
Deposits	3,175	-	3,175
	<u>1,803,268</u>	<u>609,165</u>	<u>2,412,433</u>
Net cash provided by operating activities	<u>\$ 1,609,064</u>	<u>\$ 854,008</u>	<u>\$ 2,463,072</u>

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services

State of Hawaii

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Agency Funds
ASSETS:	
Cash and short-term cash investments held in State Treasury (Note C)	\$ 6,381,224
Total assets	<u>\$ 6,381,224</u>
LIABILITIES:	
Accounts payable	\$ 19,249
Accrued wages and employee benefits payable	27,240
Due to individuals, businesses, and others	<u>6,334,735</u>
Total liabilities	<u>\$ 6,381,224</u>

The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Department of Accounting and General Services (DAGS) was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary function of DAGS is to provide professional and technical expertise to state agencies and to enforce compliance with accounting and internal control systems.

The accompanying basic financial statements of DAGS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for state and local governments as prescribed by the Governmental Accounting Standards Board (GASB).

DAGS has defined its financial reporting entity in accordance with GASB Statement No. 14, *The Financial Reporting Entity*. This statement establishes standards for defining and reporting on the financial reporting entity. The basic criterion for including a potential component unit within the financial reporting entity is financial accountability. Other criteria include legal standing and fiscal dependency.

Based on the application of these criteria, DAGS' financial reporting entity consists of the Department and the Stadium Authority, a component unit of the State that is administratively attached to DAGS. The accompanying financial statements present the financial position of DAGS and the various funds and fund types and the changes in financial position of DAGS, the various funds and fund types. The financial statements are presented as of June 30, 2004, and for the year then ended.

The following is a summary of significant accounting policies.

1. Reporting Entity - DAGS is part of the executive branch of the State. DAGS' financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of DAGS. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes DAGS' assets, liabilities, net assets and financial activities.
2. Government-wide and Governmental Fund Financial Statements – The basic financial statements include both government-wide (based on the department as a whole) and fund financial statements. The government-wide financial statements include a statement of net assets and a statement of activities prepared using full accrual accounting for all of DAGS activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and accrued vacation payable). Accrual

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Government-wide and Governmental Fund Financial Statements (continued) –

accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The statement of net assets is designed to display the financial position of DAGS. DAGS reports all capital assets in the statement of net assets and reports depreciation expense in the statement of activities. The net assets are reported in three categories: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotted appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are presented as reserves of fund balances.

Portions of fund balances are also reserved for the following:

- Encumbrances are recorded obligations in the form of purchase orders or contracts.
- Inventories are the value of supplies on hand at year end and are shown as reserved to indicate that portion of the fund balance that is not available for funding current expenditures.
- Continuing appropriations, which include specific legislative appropriations, do not lapse at the end of the year.

Unreserved fund balances represents resources that have not been internally designated.

Financial statements are provided for DAGS' governmental, proprietary and fiduciary funds. Major individual governmental funds are reported as separate columns in the governmental fund financial statements.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DAGS considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. DAGS has no principal revenue sources which are considered susceptible to accrual.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions include employees' vested annual leave which is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2004 has been reported only in the government-wide financial statements.

4. Fund Accounting – The accounts of DAGS are organized on the basis of funds, each of which is considered a separate accounting entity. The financial activities of each fund are accounted for with a separate set of self-balancing accounts which represent each funds' assets, liabilities, fund equity, revenues and expenditures.

The financial activities of DAGS that are reported in the accompanying governmental fund financial statements have been classified into the following major governmental funds:

General Fund – The general fund is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

Special Revenue Funds – Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trust) that are restricted to expenditures for specified purposes. Revenues are primarily from assessments and fees. DAGS' major special revenue fund is as follows:

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk Management Fund – This fund was established by DAGS to account for financial resources used for the State's comprehensive risk management and insurance program.

Capital Projects Fund – The capital projects fund is used to account for DAGS' construction projects and the related sources of financing (other than those financed by the proprietary fund types).

The nonmajor governmental funds are comprised of Special Revenue Funds which are used to account for the financial resources obtained from specific revenue sources and used for restricted purposes (other than expendable trusts or capital projects).

5. Proprietary Funds – Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. DAGS uses proprietary funds to account for certain of its ongoing operations. The following are DAGS' proprietary fund types:

Enterprise Fund – This fund is used to account for an operation that is financed and operated in a manner similar to a private business enterprise, where the intent is that the costs of providing services are to be financed or recovered primarily through user charges. DAGS' Enterprise Fund consists of the State Parking Revolving Fund.

Internal Service Fund – This fund is used to account for the recovery of the costs of vehicles through rental charges to other state agencies. DAGS' Internal Service Fund consists of the State Motor Pool Revolving Fund.

6. Fiduciary Fund – Fiduciary funds are used to account for assets being held for the benefit of a third party and cannot be used to address activities or obligations of the department. These funds are not incorporated into the government-wide financial statements. DAGS' Fiduciary Funds consists of Agency Funds that are used to account for the receipt and disbursement of cash by DAGS, in a custodial capacity.
7. Component Unit – The Stadium Authority's operations are reported as an Enterprise Fund, which is described under the proprietary fund types.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Deferred Revenues – DAGS reports deferred revenues on its government-wide statement of net assets and governmental funds balance sheet. Deferred revenues arise when both the “measurable” and “available” criteria for recognition are not met in the current period. Deferred revenues also arise when DAGS receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when DAGS has a legal claim to the resources, the liability for the deferred revenue is removed from the statement of net assets and balance sheet, and revenue is recognized.
9. Appropriations - An authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year, except for allotted appropriations related to capital projects.
10. Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.
11. Cash and Short-term Cash Investments - Cash and short-term cash investments reported in the statement of net assets and the governmental funds balance sheet consist of cash and short-term cash investments held in the State Treasury.

The State of Hawaii maintains a cash pool that is available for all funds. Each fund type's portion of this pool is displayed on the statement of net assets and the governmental fund balance sheet within cash and short-term cash investments. Those funds are pooled with funds from other State agencies and departments and deposited in approved financial institutions by the State Director of Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians. Interest income from this cash pool is allocated to the various departments and agencies based upon their average cash balance for the period.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Cash and Short-term Cash Investments (continued) -

The Hawaii Revised Statutes (HRS) authorized the State Director of Finance to invest in obligations of or obligations guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

12. Employee Benefit Costs – Costs for pension, health, social security and workers' compensation benefits for governmental funds are recorded by the funds budgeted to make the expenditure. These costs relating to the General Fund are not charged to the Department by the State whereas costs applicable to the Special Revenue Funds and Capital Projects Fund are reflected as expenditures in the respective fund. Costs applicable to the proprietary fund types are reflected as expenses in the Enterprise Fund and the Internal Service Fund.

13. Accumulated Vacation and Sick Leave - Eligible employees who are employed on or before July 1, 2001 are credited with vacation at a rate of 168 hours per calendar year. Eligible employees who are employed after July 1, 2001, are credited with vacation at a rate of 96 hours per calendar year during the first five years of service, 144 hours per calendar year during the next five years of service, 168 hours per calendar year during the next ten years of service and 192 hours per calendar year thereafter. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present the cost of accumulated vacation leave as a liability. Liabilities for vacation pay are inventoried at the end of each accounting period and adjusted to current salary levels.

Eligible employees employed on or before July 1, 2001, are credited with sick leave at a rate of one and three-quarter days per month. Eligible employees employed after July 1, 2001, are credited with sick leave at a rate of one and one-quarter days per month through the first ten years of service and at a rate of one and three-quarter days per month thereafter. Unused sick leave may be accumulated without limit but can be taken only in the event of illness or other incapacitation and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave is not included in the DAGS' statement of net assets or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with sixty days or more in unused sick leave is entitled to additional service credit in the Employee's Retirement System of the State of Hawaii (ERS). Accumulated sick leave as of June 30, 2004, was \$25,949,078.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

14. Intrafund and Interfund Transactions - Significant transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements. All interfund transfers are reflected in the governmental fund financial statements but are eliminated in the government-wide financial statements
15. Inventories - Inventory of materials and supplies are stated at the lower of cost (first in, first out method) or market.
16. Capital Assets - Capital assets, which include, land, buildings, improvements, equipment and vehicles are reported in the government-wide financial statements. Capital assets are assets which have a cost of \$5,000 or more at the date of acquisition and have an expected useful life of five or more years. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets are depreciated in the government-wide financial statements on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land, certain land improvements and construction-in-progress. Generally, estimated useful lives are as follows:

Buildings and improvements	30 years
Equipment, furniture and fixtures	5 – 12 years
Motor vehicles	10 years

DAGS also coordinates construction projects for State buildings and public school facilities throughout the State. Because these assets are constructed for use by other State Departments and not DAGS, the related construction-in-progress for these projects is not recorded as construction-in-progress in the capital assets of DAGS.

17. Use of Estimates - In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenditures, and other financing sources and uses during the reporting period. Actual results could differ from those estimates.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE B - BUDGETING AND BUDGETARY CONTROL

DAGS' annual budget is prepared on the cash basis utilizing encumbrance accounting. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected by DAGS as budgeted revenues are those estimates as compiled by the State Director of Finance. Budgeted expenditures for DAGS' general fund are provided to the Department of Budget and Finance, State of Hawaii, for accumulation with budgeted amounts of the other State agencies and included in the Governor's executive budget that is subject to legislative approval.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations.

For purposes of budgeting, DAGS' budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with accounting principles generally accepted in the United States of America. Since the budgetary basis differs from accounting principles generally accepted in the United States of America, budget and actual amounts in the statements of revenues and expenditures – budget and actual, are presented on the budgetary basis. A reconciliation of the general and major special revenue funds' revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2004, to the general and major special revenue funds' revenues in excess of expenditures presented in conformity with accounting principles generally accepted in the United States of America, is set forth below.

Under Section 78-13 HRS, staff salaries and wages amounting to \$1,189,448 in the general fund for the period from June 16, 2004 through June 30, 2004, are to be funded with monies budgeted for fiscal 2005. In addition, at June 30, 2004, DAGS accrued expenditures of \$1,392,632 and \$63,204 in the general and major special revenue funds, respectively, for certain goods and services received through June 30, 2004, which DAGS will fund with monies budgeted for fiscal 2005. Accordingly, these amounts are excluded from the statements of revenues and expenditures – budget and actual. For accounting purposes these amounts are reflected in the government-wide and governmental fund financial statements at June 30, 2004, in accordance with accounting principles generally accepted in the United States of America.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE B - BUDGETING AND BUDGETARY CONTROL (continued)

The following schedule reconciles the general and major special revenue funds' budgetary amounts to the amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP basis) for the fiscal year ended June 30, 2004.

	General Fund	Risk Management Fund
Excess of revenues over expenditures - actual on budgetary basis	\$ 786,350	\$ 2,806,542
Current year's appropriations included in reserved for encumbrances at June 30, 2004	11,694,178	38,813
Expenditures for liquidation of prior years' Encumbrances	(8,817,315)	(241,080)
Fiscal 2004 salaries and wages funded by fiscal 2005 budget under Section 78-13 HRS	(1,189,448)	-
Fiscal 2004 expenditures funded by fiscal 2005 budget	<u>(1,392,632)</u>	<u>(63,204)</u>
Excess of revenues over expenditures - GAAP basis	<u>\$ 1,081,133</u>	<u>\$ 2,541,071</u>

NOTE C – CASH AND SHORT-TERM CASH INVESTMENTS HELD IN STATE TREASURY

Cash and short-term cash investments includes monies in the State Treasury. The State Treasury maintains an investment pool for all state monies. Hawaii Revised Statutes (HRS) authorize the State Director of Finance to invest any monies of the State which in the Director's judgment are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions.

As of June 30, 2004, the carrying amount, which approximates the bank balance of the DAGS' cash and short-term cash investments, was \$293,478,363 for its governmental funds, \$4,429,528 for its proprietary funds, \$6,381,224 for its fiduciary funds and \$2,735,879 for its component unit.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE D - CAPITAL ASSETS

Capital assets activity for governmental activities and business-type activities for the year ended June 30, 2004, were as follows:

	Governmental Activities				
	Balance July 1, 2003 (previously reported)	Adjustments	Balance July 1, 2003 (restated)	Additions, Disposals and Transfers	Balance June 30, 2004
Capital assets not being depreciated -					
Land and improvements	\$ 88,404,189	\$ -	\$ 88,404,189	\$ -	\$ 88,404,189
Historical treasures	24,504,658	-	24,504,658	-	24,504,658
Works of art	15,557,105	-	15,557,105	-	15,557,105
Total capital assets not being depreciated	128,465,952	-	128,465,952	-	128,465,952
Capital assets being depreciated -					
Buildings and improvements	400,975,314	(369,475,904)	31,499,410	-	31,499,410
Equipment, furniture and fixtures	7,325,908	-	7,325,908	137,318 (428,592) 77,176	7,111,810
Motor vehicles	3,963,421	-	3,963,421	(105,966) 21,111	3,878,566
Total capital assets being depreciated	412,264,643	(369,475,904)	42,788,739	(298,953)	42,489,786
Less accumulated depreciation -					
Buildings and improvements	(191,969,661)	177,192,635	(14,777,026)	(1,031,666)	(15,808,692)
Equipment, furniture and fixtures	(6,327,046)	-	(6,327,046)	(285,385) 424,754 (104,218)	(6,291,895)
Motor vehicles	(3,704,408)	-	(3,704,408)	(82,057) 105,966 (7,100)	(3,687,599)
Total accumulated depreciation	(202,001,115)	177,192,635	(24,808,480)	(979,706)	(25,788,186)
Total capital assets, being depreciated, net	210,263,528	(192,283,269)	17,980,259	(1,278,659)	16,701,600
Total capital assets, net	\$ 338,729,480	\$ (192,283,269)	\$146,446,211	\$ (1,278,659)	\$145,167,552

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE D - CAPITAL ASSETS (continued)

	Business-Type Activities			
	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Capital assets not being depreciated -				
Land and improvements	\$ 10,271,053	\$ -	\$ -	\$ 10,271,053
Construction in progress	40,686	150,795	(165,498)	25,983
Total capital assets not being depreciated	10,311,739	150,795	(165,498)	10,297,036
Capital assets being depreciated -				
Buildings and improvements	54,162,305	165,499	-	54,327,804
Equipment, furniture and fixtures	150,366	20,000	-	170,366
Motor vehicles	4,526,795	779,877	(611,727)	4,694,945
Total capital assets being depreciated	58,839,466	965,376	(611,727)	59,193,115
Less accumulated depreciation:				
Buildings and improvements	(32,220,538)	(1,652,234)	-	(33,872,772)
Equipment, furniture and fixtures	(105,927)	(16,921)	-	(122,848)
Motor vehicles	(2,041,483)	(626,025)	463,407	(2,204,101)
Total accumulated depreciation	(34,367,948)	(2,295,180)	463,407	(36,199,721)
Total capital assets being depreciated, net	24,471,518	(1,329,804)	(148,320)	22,993,394
Total capital assets - net	<u>\$ 34,783,257</u>	<u>\$ (1,179,009)</u>	<u>\$ (313,818)</u>	<u>\$ 33,290,430</u>

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE D - CAPITAL ASSETS (continued)

In the prior year, DAGS had capitalized certain buildings which were being utilized by other State Agencies. It is the State's policy to reflect only the capital assets utilized by the department in the department's government-wide financial statements. Accordingly, DAGS decreased its July 1, 2003 building and improvements balance by \$369,475,904 and reduced the related accumulated depreciation by \$177,192,635 to eliminate the amounts which should not have been recorded by DAGS. This resulted in a restatement of \$192,283,269 to the July 1, 2003 net assets invested in capital assets.

Other changes to capital assets consisted of the following:

Depreciation expense was charged to functions of DAGS as follows:

Government-wide activities:

Administration and support	\$ 126,226
State procurement	29,813
Public building maintenance	103,132
Accounting	41,132
Audit	7,706
Performing and visual arts	231,346
School repairs and maintenance	105,131
Office leasing	2,964
Information processing services	517,929
Other	<u>233,729</u>
Total depreciation expense – government-wide activities	<u>\$ 1,399,108</u>

Business-type activities:

Parking control	\$ 1,667,155
Motor pool	<u>628,025</u>
Total depreciation expense - business-type activities	<u>\$ 2,295,180</u>

DAGS expends funds for land improvements and buildings which will be utilized by other State departments and agencies. Accordingly, the capital outlays for these projects are not capitalized by DAGS. During the year ended June 30, 2004, DAGS had capital outlays of \$223,698,626 for these projects. At June 30, 2004, the (\$42,457,345) unreserved fund balance in the Capital Projects Fund is primarily due to encumbrances related to these projects. In addition, DAGS incurs expenditures related to the occupancy and repairs and maintenance of certain buildings utilized by other State departments and agencies.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE D - CAPITAL ASSETS (continued)

Capital assets activity for DAGS' component unit for the year ended June 30, 2004, were as follows:

	Stadium Authority			Balance June 30, 2004
	Balance July 1, 2003	Additions	Deductions	
Capital assets not being depreciated -				
Land and improvements	\$ 11,518,621			\$ 11,518,621
Construction in progress	566,368	\$ 132,994	\$ (699,362)	-
Total capital assets not being depreciated	12,084,989	132,994	(699,362)	11,518,621
Capital assets being depreciated -				
Stadium structure	91,222,773	1,999,362		93,222,135
Equipment, furniture and fixtures	6,382,310	47,411		6,429,721
Total capital assets being depreciated	97,605,083	2,046,773	-	99,651,856
Less accumulated depreciation for -				
Stadium structure	(53,513,668)	(3,670,780)		(57,184,448)
Equipment, furniture and fixtures	(5,971,804)	(389,331)		(6,361,135)
Total accumulated depreciation	(59,485,472)	(4,060,111)	-	(63,545,583)
Total capital assets being depreciated, net	38,119,611	(2,013,338)	-	36,106,273
Total capital assets, net	<u>\$ 50,204,600</u>	<u>\$ (1,880,344)</u>	<u>\$ (699,362)</u>	<u>\$ 47,624,894</u>

NOTE E – LONG-TERM OBLIGATIONS

Changes in accrued vacation payable during the year ended June 30, 2004, were as follows:

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Balance, July 1, 2003	\$ 8,124,133	\$ 221,766	\$ 8,345,899	\$ 419,000
Net increase (decrease) in accrued vacation payable	(215,485)	61,334	(154,151)	17,935
Balance, June 30, 2004	7,908,648	283,100	8,191,748	436,935
Less current portion	(2,300,000)	(58,353)	(2,358,353)	(156,947)
Non-current portion	<u>\$ 5,608,648</u>	<u>\$ 224,747</u>	<u>\$ 5,833,395</u>	<u>\$ 279,988</u>

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE E - LONG-TERM OBLIGATIONS (continued)

Long-term debt obligations of general obligation bonds allocated to the State Parking Revolving Fund under acts of various Session Laws of Hawaii. Repayment of allocated bond debts are made to the State's General Fund. Details of allocated bond debts at June 30, 2004, are as follows

\$20,800 series BW bonds dated March 1, 1992; due in annual installments of \$1,156 from March 1, 1995 through March 1, 1996, and \$1,155 through final payment on March 1, 2012; interest at 5.15% to 6.40% payable semi-annually	\$ 8,088
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\$2,884,269 series CB refunding bonds dated January 1, 1993; due in annual installments of \$221,980 from January 1, 1996 through January 1, 1997, and \$221,846 through final payment on January 1, 2008; interest at 4.30% to 5.75% payable semi-annually	887,385
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\$218,603 series CC refunding bonds dated January 1, 1993; due in annual installments of \$15,615 from February 1, 1996 through February 1, 2005, and \$15,612 through final payment on February 1, 2009; interest at 3.85% to 7.75% payable semi- annually	46,833
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\$550,212 series CI refunding bonds dated October 1, 1993; due in annual installments of \$36,685 from November 1, 1996 through November 1, 2003, and \$36,676 through final payment on November 1, 2010; interest at 4.00% to 5.00% payable semi- annually	256,733
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\$659,806 series CQ refunding bonds dated October 1, 1997; due in increasing incremental annual installment of \$81,623 to \$108,621 through final payment on October 1, 2004; interest at 4.00% to 5.00% payable semi-annually	108,621
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\$20,197 series CS refunding bonds dated April 1, 1998; due in increasing incremental annual installment of \$2,465 to \$3,335 through final payment on April 1, 2009; interest at 5.25% to 5.00% payable semi-annually	15,139
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Subtotal carried forward	<hr/> 1,322,799
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Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE E –LONG-TERM OBLIGATIONS (continued)

Subtotal brought forward	\$ 1,322,799
\$1,254 series CW refunding bonds dated August 1, 2001; due in increasing incremental annual installments of \$89 to \$146 through final payment on August 1, 2015; interest at 3.40% to 5.50% payable semi-annually	1,254
\$2,394 series CY refunding bonds dated February 1, 2002; due in increasing incremental annual installments of \$261 to \$326 through final payment on February 1, 2015; interest at 3.60% to 5.25% payable semiannually	2,394
\$124,267 series DB refunding bonds dated September 1, 2003; due in annual principal payments of \$11,307 beginning September 1, 2008 and increasing incrementally to \$16,764 through September 1, 2016; interest at 2.80% to 5.00% payable semiannually	124,267
\$15,491 series DC refunding bonds dated September 1, 2003; due in one payment on September 1, 2005; interest at 3.00% payable semiannually	<u>15,492</u>
Total allocated bond debt	1,466,206
Less current portion	<u>(369,874)</u>
Noncurrent portion	<u>\$1,096,332</u>

The approximate annual maturities on the general obligation bond payable are as follows:

Year ending June 30,	
2005	\$ 369,874
2006	278,132
2007	278,623
2008	278,788
2009	68,420
Thereafter	<u>192,369</u>
	<u>\$ 1,466,206</u>

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE F - RETIREMENT BENEFITS

All eligible employees of DAGS are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. The report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a non-contributory option for members of the ERS who are also covered under Social Security. Persons who are employed in positions not covered by Social Security are precluded from the non-contributory option. The non-contributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new non-contributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the State Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The ERS' funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Under this method, the total employer contribution is comprised of the "normal cost" plus the level annual payments required to amortize the unfunded actuarial accrued liability over the closed period ending June 30, 2029. The employer normal cost is the level percentage of payroll contribution required to pay all benefits. Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in the employer unfunded accrued liability.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE F - RETIREMENT BENEFITS (continued)

The State is required to contribute to both the contributory and noncontributory options at an actuarially determined rate. The State contributed 100% of its required contribution for the years ended June 30, 2004, 2003, and 2002, which were approximately \$235,686,000, \$158,622,000, and \$113,984,000, respectively. Changes in salary growth assumptions and investment earnings pursuant to Act 100, Session Laws of Hawaii 1999, decreased the June 30, 2002 and 2001 required contributions. Act 233, Session Laws of Hawaii 2002, increased the June 30, 2003 contribution by providing for a one-time lump-sum pensioner bonus to the retirees who were 70 years and older with at least 20 years of credited service as of June 30, 2002. Also, Act 284, Session Laws of Hawaii 2001, provided an increase in pension benefits effective 2003 to retirees with military service.

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of service.

For employees hired after June 30, 1996, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

There are approximately 32,400 state retirants currently receiving such benefits. Retirees, their spouses and dependent children under age 19 are eligible to receive life insurance, medical, dental, vision, and prescription drug coverage from the Employer-Union Health Benefits Trust Fund (EUTF) if they were hired before July 1, 1996, and retire with at least ten years of credited service. If they were first hired after June 30, 1996, health benefits are available on a cost-sharing basis as long as the member retires with at least ten years of service. A dependent of a retiree who is a full-time student at an accredited college, university or technical school and who is 19 through 23 years old is also eligible for coverage. A retiree with a hire date after July 1, 2001 will only receive coverage for him or herself.

Contributions are financed on a pay-as-you-go basis. During fiscal 2004, post-retirement benefits expense of \$81,050 was recognized in the proprietary funds' financial statements. The post-retirement benefits expense of the component unit has not been separately computed and is not reflected in the component unit's financial statements.

Department of Accounting and General Services
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Notes to the Financial Statements
June 30, 2004

NOTE F - RETIREMENT BENEFITS (continued)

Effective July 1, 2003, the Hawaii Employer-Union Health Benefit Trust Fund (EUTF) replaced the Hawaii Public Employees Health Fund under Act 88, Session Laws of Hawaii 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

NOTE G - COMMITMENTS AND CONTINGENCIES

Litigation -

DAGS is involved in several lawsuits and complaints which arose in the normal course of operations. Losses not covered by insurance are typically paid through an appropriation from the State's General Fund. Accordingly, the management of DAGS is of the opinion that the outcome of these lawsuits and complaints will not have a material adverse effect on the financial position of DAGS.

Insurance -

The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation, however, the State has property, crime and other liability insurance policies in force through various outside insurance carriers to mitigate this risk. The State generally retains the risk of losses up to deductible amounts per occurrence, and for amounts over the coverage limits. Losses not covered by the insurance policies are paid by DAGS' Risk Management Fund or through Legislative Appropriation.

The State has real and personal property insurance covering all risk of direct physical loss including named hurricanes with a limit of loss of \$100,000,000 per occurrence, flood and earthquakes with a limit of loss of \$25,000,000 and aggregate limit of \$25,000,000; and terrorism with a limit of loss of \$50,000,000. Deductibles are 3% of loss subject to a \$250,000 minimum per occurrence for windstorm, named hurricane, earthquake, flood damage, tsunami and volcanic action. For all other losses, the deductible is \$250,000 per occurrence.

The State has liability insurance covering bodily injury and property damage, automobile and watercraft liability, public errors and omissions liability and employment practices and employee benefits liability. Coverage limits are \$10,000,000 for any one occurrence or \$10,000,000 in the aggregate. The State is self-insured for the first \$4,000,000 per occurrence for general liability claims. The State also has crime insurance for various types of coverage with a maximum limit of \$10,000,000 with a \$250,000 deductible per occurrence. The State is generally self-insured for workers' compensation and automobile claims.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Insurance (continued) -

DAGS' Risk Management Office handles tort claims of \$10,000 or less for most departments of the State. Claims over \$10,000 are handled by the State Department of the Attorney General. Losses from tort claims less than \$10,000 are paid from DAGS' Risk Management Fund. DAGS has not recorded a liability for unpaid tort claims of \$10,000 or less because management of DAGS has determined that the aggregate liability was not significant at June 30, 2004. DAGS' Risk Management Office also handles the State's property and automobile insurance claims. Losses from these claims are generally paid from DAGS Risk Management Fund. DAGS has not recorded a liability for unpaid property and automobile claims of \$10,000 or less because management of DAGS has determined that the aggregate liability was not significant at June 30, 2004. Workers' compensation insurance is maintained through another State department.

Deferred Compensation Plan -

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary to future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of the State's general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

Operating Leases –

The future minimum rent payments for years subsequent to June 30, 2004 for certain office space leased by DAGS under non-cancelable operating leases, which expire at various dates through August 2022, are as follows:

Year ending June 30,	
2005	\$ 7,195,000
2006	6,502,000
2007	5,887,000
2008	5,452,000
2009	4,924,000
Thereafter	<u>48,590,000</u>
	<u>\$ 78,550,000</u>

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases (continued) –

Total rent expenditures of the General Fund for the year ended June 30, 2004, approximated \$15,700,000.

Accumulated Sick Leave –

Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2004, approximated \$25,949,000 for the governmental fund types and approximately \$ 748,000 and \$1,258,000 for the proprietary fund types and component unit, respectively.

Ceded Lands –

In 1898, the Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the ceded lands) back to the State to be held as a public trust for the support of the public schools and other public educational institutions, for the betterment of the conditions of native Hawaiians, for the development of farm and home ownership, for the making of public improvements and for provision of lands for public use.

In 1978, the State Constitution was amended expressly to provide that the ceded lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs (OHA) to administer and manage the proceeds and income derived from a pro rata portion of the ceded lands for native Hawaiians.

In 1979, the State Legislature adopted HRS Chapter 10, which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the ceded lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987), the Hawaii Supreme Court concluded that HRS Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public land trust.

Department of Accounting and General Services
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Notes to the Financial Statements
June 30, 2004

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued) –

In 1990, in response to *Yamasaki*, the State Legislature adopted Act 304, Session Laws of Hawaii (SLH) of 1990, which (1) defined “public land trust” and “revenue,” (2) specified that 20% of the “revenue” derived from the “public land trust” was to be expended by OHA for the betterment of the conditions of native Hawaiians, and (3) established a process for OHA and the State Director of Finance to jointly determine the amount of monies which the State would pay OHA to retroactively settle all of OHA’s claims for the period from June 16, 1980 through June 30, 1991. Since fiscal 1992, the State, through its departments and agencies, has been paying 20% of “revenue” to OHA on a quarterly basis.

In 1993, the State Legislature enacted Act 35, SLH of 1993, appropriating \$136.5 million to pay the amount determined to be OHA’s claims, with interest, for the period from June 16, 1980 through June 30, 1991.

In January 1994, OHA and its Board of Trustees (the Plaintiffs) filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (First Circuit) (“*OHA I*”)), claiming that the amount paid to OHA was inadequate and alleging that the State has failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs seek an accounting for all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damage amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA’s complaint, the State denied all of the Plaintiff’s substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs, thereafter, filed four motions for partial summary judgement as to the State’s liability to pay OHA 20% of monies it receives from (1) Airports Division’s in-bond duty-free airport concession (including receipts from the concessionaire’s off-airport sales operations); (2) the state-owned and operated Hilo Medical Center; (3) the State’s rental public housing projects and affordable housing developments; and (4) interest income, including investment earnings (collectively, the Sources). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiff’s four motions on the merits and raised several affirmative defenses.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued) –

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the First Circuit Court filed an order granting the Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the monies it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting the Plaintiffs' four motions for partial summary judgment was granted, and all proceedings in the suit have been stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw., 388(2001) that Act 304 was effectively repealed by its own terms, and that there were no judicially manageable standards by which to determine whether OHA was entitled to the revenue it sought from the Sources because the repeal of Act 304 revived the law which the Hawaii Supreme Court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the ceded lands. See *OHA v. State*, 96 Haw., 388 (2002). The Hawaii Supreme Court dismissed the case for lack of justiciability noting that it was up to the State Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the ceded lands under the State Constitution. The State Legislature took no action during the 2002 legislative session, and the State's payments of 20% of "revenue" were discontinued as of the first quarter in fiscal 2002.

The State Legislature took no action during the 2002 and 2003 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the ceded lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of ceded lands to OHA, if federal or state law did not preclude all or any portion of the receipts from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipts to OHA would not cause the state agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or state agency. During the 2003 legislative session, the State Legislature appropriated monies from the various funds into which the ceded lands receipts had been deposited after the decision in *OHA I* was issued and the state agencies ceased making payments to OHA, and directed the state agencies to pay them to OHA.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued) –

OHA continues to pursue its claims for a portion of the revenues from the Sources and other ceded lands that it made in OHA I. On July 21, 2003, OHA filed a new lawsuit, *OHA, et al. v. State of Hawaii, et al.*, Civil No. 03-1-1505-07 (*OHA II*). There follows additional background information pertinent to *OHA II*. In September 1996, the Office of the Inspector General of the U.S. Department of Transportation (DOT) issued a report (IG Report) concluding that from 1992 to 1995, the Hawaii Department of Transportation's payment to OHA of \$28.2 million was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Hawaii Attorney General disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were simply an operating cost of the airports, and thus not a diversion of airport revenues in violation of federal law. In April 1997, the Acting Administrator of the FAA concurred in writing (FAA Memorandum), with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the First Circuit Court's OHA I decision to the Hawaii Supreme Court, but differing with the original position of the Hawaii Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position, set forth in the IG Report, changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In October 1997, Public Law 105-66, 1997 HR 2169 (Forgiveness Act) was enacted into federal law. The Forgiveness Act essentially provides that in exchange for there being no further payments of airport revenues for claims related to ceded lands, any such payments received prior to April 1, 1996 need not be repaid. The Hawaii Attorney General submitted the Forgiveness Act to the Hawaii Supreme Court ("Court") in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties submit supplemental briefs to address whether the Forgiveness Act affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro-rata share of airport monies violated federal law, and that there was no live, ripe controversy regarding those payments because the Forgiveness Act relieved the State and OHA of any obligation to return improper past payments.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued) –

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* have now sued the State for alleged breaches of fiduciary duties as purported trustee of the ceded lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5, and 6 of the Hawaii Constitution, alleged violations of the Contract Clause of the U.S. Constitution, and alleged misrepresentation and non-disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior \$28.2 million payments in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors, and omissions" were substantial factors that resulted in the passing of the Forgiveness Act and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also seek declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and seeks appointment of an independent trustee to temporarily replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from the sources other than airport revenues.

The State is currently unable to predict with reasonable certainty the magnitude of its potential liability for such claims, if any. Resolution of all of OHA's claims could have a material adverse effect on the State's financial condition.

In a second lawsuit, OHA filed a complaint for declaratory and injunctive relief on November 4, 1994 (*OHA v. Housing Finance and Development Corporation, et al.*, Civil No. 94-4207-11 (First Circuit)) to enjoin the State from alienating any ceded lands or, alternatively, to preclude the extinguishing of any rights native Hawaiians may have in ceded lands which may be alienated.

Department of Accounting and General Services
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Notes to the Financial Statements
June 30, 2004

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued) –

Alternatively, OHA sought a declaration that the amounts the Housing Finance and Development Corporation (Corporation) and the State paid to OHA for ceded lands the Corporation planned to use to develop and sell housing units pursuant to Act 318, SLH of 1992, were insufficient. Act 318 established a separate process for valuing the ceded lands the Corporation used for its two housing developments at Kealahou and Lahaina, and quantifying the amounts of income and proceeds from the ceded lands that the Corporation and State were required to pay OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell ceded lands, denied the declaratory ruling that the sale of ceded lands did not directly or indirectly release or limit native Hawaiians' claim to those lands which the Plaintiff requested, and ordered that judgment be entered in the State's and Corporation's favor as to Counts I, II, and III of the Amended Complaint. The Plaintiffs moved for and were granted leave to file immediate appeals from the trial court's ruling to the Hawaii Supreme Court. Those appeals are now pending. Trial to determine the sufficiency of the proceeds paid to OHA by the Corporation and the State from the sale of particular parcels of ceded lands at issue has not been scheduled.

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority (the HHA), the executive director of the HHA, the board members of the HHA and the State Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (First Circuit)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA v. State of Hawaii*, Civil No. 94-0205-01 (First Circuit). The repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA v. State* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

At the present time, the State is not able to estimate with any reasonable certainty the magnitude of the potential liability as it may be determined either by judicial rulings (either at trial or on appeal) or by legislation enacted as a result of the process established in Act 329. Accordingly, no estimate of loss has been made in the State's or the accompanying financial statements. However, an ultimate decision against the State could have a material adverse effect on the financial position of the State.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued) –

The State Parking Revolving Fund has recorded ceded land payments of \$22,363 for 2003 to OHA representing OHA's entitlement to revenues derived from the State Parking Revolving Fund's use of ceded lands. All monies due prior to October 1, 2002 were transferred to a trust fund pending resolution of OHA's claim against the State. Included in accounts payable is \$5,547 for ceded land payments due as of June 30, 2004.

Hurricane Iniki –

Following Hurricane Iniki in 1992, the U.S. Army Corps of Engineers made repairs to certain State properties. These repairs were paid for by the Federal Emergency Management Agency (FEMA). The State subsequently received insurance settlements for certain of the damaged properties. In April 1997, FEMA demanded \$12,167,381 from the State for reimbursement of the cost of repairs. The State disputed FEMA's claim, stating that the insurance settlements only aggregated \$7,423,481. Subsequently, the State filed an appeal in the U.S. District Court and in March 2000, FEMA's claim was upheld, except that it was reduced to \$12,102,524.

In August 2000, the State was informed by FEMA that as of July 1, 2000, the total amount owed was increased to \$16,428,084, due to penalties and interest since July 10, 1997 of \$4,325,560. The District Court's decision was appealed by the State to the U.S. Ninth Circuit Court of Appeals. In June 2002, the U.S. Ninth Circuit Court of Appeals ruled in favor of the State as to the remaining \$4.7 million of the initial \$12,102,524. In August 2002, DAGS paid \$7,423,481 to FEMA. In March 2003, the case was sent back to FEMA and is currently pending.

The Department has recorded a liability in the Risk Management fund for \$12,102,524. DAGS' Management believes that any additional payments to FEMA above that amount would be paid through a special appropriations from the State's General Fund.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2004

NOTE H - SUBSEQUENT EVENTS

Transfer of School Repairs and Maintenance –

Act 51, Session Laws of Hawaii 2004, the "Reinventing Education Act of 2004", transfers the authority for school repairs and maintenance from DAGS to the State Department of Education (DOE). In connection with this transfer, DAGS plans to transfer approximately 200 employees and the related funds in its capital projects funds to the DOE. The transfer will be effective July 1, 2005. The effects of this transfer on the financial statements of DAGS has not been determined.

Flood Damage at the University of Hawaii –

In October 2004, the University of Hawaii incurred damages from a flood at its Manoa campus. The damages are expected to be paid through DAGS' Risk Management Division. Although DAGS has a \$25 million flood insurance coverage through an outside insurer for such events, the flood damages are estimated to exceed the \$25 million flood insurance coverage. Accordingly, DAGS' Risk Management Special Fund may not be sufficient to cover all of the flood damages. It is not currently known what financial effect this event will have on DAGS, however, the management of DAGS expects to receive additional State and Federal funding to cover a substantial portion of the uninsured flood damages.

SUPPLEMENTAL INFORMATION

Department of Accounting and General Services
State of Hawaii

Combining Balance Sheet -
General Fund Programs
June 30, 2004

	Administration and Support	School Repairs and Maintenance	State Procurement	Accounting	Audit	Public Building Maintenance	Performing and Visual Arts	Office Leasing	Information Processing Services	Communications	Other	Total
ASSETS												
Cash and short-term cash investments held in State Treasury	\$ 106,359	\$ 3,983,580	\$ 34,503	\$ 505,944	\$ 759,459	\$ 1,406,916	\$ 389,797	\$ 10,682,782	\$ 2,380,970	\$ 206,653	\$ 3,057,919	\$ 23,514,882
Inventories	-	-	-	-	-	-	-	-	-	-	1,374,902	1,374,902
Total assets	<u>\$ 106,359</u>	<u>\$ 3,983,580</u>	<u>\$ 34,503</u>	<u>\$ 505,944</u>	<u>\$ 759,459</u>	<u>\$ 1,406,916</u>	<u>\$ 389,797</u>	<u>\$ 10,682,782</u>	<u>\$ 2,380,970</u>	<u>\$ 206,653</u>	<u>\$ 4,432,821</u>	<u>\$ 24,889,784</u>
LIABILITIES												
Vouchers and contracts payable	\$ 2,455	\$ 1,243,256	\$ 2,457	\$ 30,613	\$ 57,139	\$ 1,494,008	\$ 54,890	\$ 67,324	\$ 430,678	\$ 3,182	\$ 890,736	\$ 4,276,738
Accrued wages and employee benefits payable	111,974	464,879	51,028	70,334	46,262	319,442	25,167	12,186	435,582	-	274,984	1,811,838
Total liabilities	<u>114,429</u>	<u>1,708,135</u>	<u>53,485</u>	<u>100,947</u>	<u>103,401</u>	<u>1,813,450</u>	<u>80,057</u>	<u>79,510</u>	<u>866,260</u>	<u>3,182</u>	<u>1,165,720</u>	<u>6,088,576</u>
FUND BALANCES												
Reserved for:												
Encumbrances	22,034	3,106,394	26,842	440,162	656,376	673,404	316,136	10,615,431	1,909,185	203,471	2,038,953	20,008,388
Inventories	-	-	-	-	-	-	-	-	-	-	1,374,902	1,374,902
Unreserved	<u>(30,104)</u>	<u>(830,949)</u>	<u>(45,824)</u>	<u>(35,165)</u>	<u>(318)</u>	<u>(1,079,938)</u>	<u>(6,396)</u>	<u>(12,159)</u>	<u>(394,475)</u>	<u>-</u>	<u>(146,754)</u>	<u>(2,582,082)</u>
Total fund balances	<u>(8,070)</u>	<u>2,275,445</u>	<u>(18,982)</u>	<u>404,997</u>	<u>656,058</u>	<u>(406,534)</u>	<u>309,740</u>	<u>10,603,272</u>	<u>1,514,710</u>	<u>203,471</u>	<u>3,267,101</u>	<u>18,801,208</u>
Total liabilities and fund balances	<u>\$ 106,359</u>	<u>\$ 3,983,580</u>	<u>\$ 34,503</u>	<u>\$ 505,944</u>	<u>\$ 759,459</u>	<u>\$ 1,406,916</u>	<u>\$ 389,797</u>	<u>\$ 10,682,782</u>	<u>\$ 2,380,970</u>	<u>\$ 206,653</u>	<u>\$ 4,432,821</u>	<u>\$ 24,889,784</u>

Department of Accounting and General Services
State of Hawaii
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
General Fund Programs
June 30, 2004

	Administration and Support	School Repairs and Maintenance	State Procurement	Accounting	Audit	Public Building Maintenance	Performing and Visual Arts	Office Leasing	Information Processing Services	Communications	Other	Total
Revenues	\$ 2,180,688	\$ 22,989,693	\$ 1,043,020	\$ 2,331,496	\$ 1,348,466	\$ 14,959,950	\$ 1,899,595	\$ 11,834,547	\$ 14,603,159	\$ -	\$ 5,600,779	\$ 78,791,393
Expenditures:												
Personal services	2,124,795	8,834,122	994,449	1,728,777	623,443	6,245,047	393,279	244,396	8,669,436	294,797	3,285,743	33,438,284
Other	74,493	15,422,374	70,867	386,827	792,096	9,241,969	1,340,456	9,849,182	5,365,258	-	1,728,454	44,271,976
Total expenditures	2,199,288	24,256,496	1,065,316	2,115,604	1,415,539	15,487,016	1,733,735	10,093,578	14,034,694	294,797	5,014,197	77,710,260
Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses)	(18,600)	(1,266,803)	(22,296)	215,892	(67,073)	(527,066)	165,860	1,740,969	568,465	(294,797)	586,582	1,081,133
Other financing sources (uses)												
Interfund transfers in	-	3,367,775	-	60,000	-	250,258	-	-	-	-	1,648,243	5,326,276
Interfund transfers out	(10,000)	(3,367,775)	-	(60,000)	-	(300,258)	(8,700)	(10,000)	(9,000)	-	-	(3,765,733)
Total other financing sources (uses)	(10,000)	-	-	-	-	(50,000)	(8,700)	(10,000)	(9,000)	-	1,648,243	1,560,543
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(28,600)	(1,266,803)	(22,296)	215,892	(67,073)	(577,066)	157,160	1,730,969	559,465	(294,797)	2,234,825	2,641,676
Other changes in fund equity:												
Lapsed appropriations	(114,253)	(382,804)	(29,325)	(260,553)	(31,988)	(50,284)	(161,709)	(1,969,725)	(15,978)	(19,497)	(532,116)	(3,568,232)
Net change in fund balances	(142,853)	(1,649,607)	(51,621)	(44,661)	(99,061)	(627,350)	(4,549)	(238,756)	543,487	(314,294)	1,702,709	(926,556)
Fund balances at July 1, 2003	134,783	3,925,052	32,639	449,658	755,119	220,816	314,289	10,842,028	971,223	517,765	1,564,392	19,727,764
Fund balances at June 30, 2004	\$ (8,070)	\$ 2,275,445	\$ (18,982)	\$ 404,997	\$ 656,058	\$ (406,534)	\$ 309,740	\$ 10,603,272	\$ 1,514,710	\$ 203,471	\$ 3,267,101	\$ 18,801,208

Department of Accounting and General Services
State of Hawaii
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2004

	Special Revenue Funds				
	State Foundation on Culture and the Arts	Help America Vote Federal Grant Fund	All Other Special Revenue Funds	Expendable Trust Fund	Total Other Governmental Funds
ASSETS					
Cash and short term cash investments					
held in State Treasury	\$ 7,131,509	\$ 6,487,090	\$ 9,302,379	\$ 332,941	\$ 23,253,919
Due from other agencies	-	-	208,315	-	208,315
Total assets	<u>\$ 7,131,509</u>	<u>\$ 6,487,090</u>	<u>\$ 9,510,694</u>	<u>\$ 332,941</u>	<u>\$ 23,462,234</u>
LIABILITIES					
Vouchers and contracts payable	\$ 65,912	\$ 5,915	\$ 675,757	\$ 24,368	\$ 771,952
Accrued wages and employee benefits payable	45,931	3,810	10,676	-	60,417
Total liabilities	<u>111,843</u>	<u>9,725</u>	<u>686,433</u>	<u>24,368</u>	<u>832,369</u>
FUND BALANCES					
Reserved for:					
Encumbrances	1,805,630	-	6,092,315	119,913	8,017,858
Unreserved	5,214,036	6,477,365	2,731,946	188,660	14,612,007
Total fund balances	<u>7,019,666</u>	<u>6,477,365</u>	<u>8,824,261</u>	<u>308,573</u>	<u>22,629,865</u>
Total liabilities and fund balances	<u>\$ 7,131,509</u>	<u>\$ 6,487,090</u>	<u>\$ 9,510,694</u>	<u>\$ 332,941</u>	<u>\$ 23,462,234</u>

Department of Accounting and General Services
State of Hawaii
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
- Nonmajor Governmental Funds
for the year ended June 30, 2004

	Special Revenue Funds			Expendable Trust Fund	Total Other Governmental Funds
	State Foundation on Culture and the Arts	Help America Vote Federal Grant Fund	All Other Special Revenue Funds		
REVENUES					
Rentals	\$ -	\$ -	\$ 5,202,443	\$ -	\$ 5,202,443
Interest and investment income	167,362	142,159	66,985	13,992	390,498
Intergovernmental	546,900	-	108,885	-	655,785
Other	4,701	-	5,913,390	64,652	5,982,743
Total revenues	<u>718,963</u>	<u>142,159</u>	<u>11,291,703</u>	<u>78,644</u>	<u>12,231,469</u>
EXPENDITURES					
Administration and support	-	-	50,443	-	50,443
Public building maintenance	-	-	1,472,582	-	1,472,582
Performing and visual arts	2,456,904	-	-	-	2,456,904
School repairs and maintenance	-	-	3,109,818	-	3,109,818
Office leasing	-	-	5,861,632	-	5,861,632
Information processing services	-	-	1,010,062	-	1,010,062
Other	-	52,113	3,898,284	222,935	4,173,332
Capital outlays	-	-	943,609	-	943,609
Total expenditures	<u>2,456,904</u>	<u>52,113</u>	<u>16,346,430</u>	<u>222,935</u>	<u>19,078,382</u>
Excess (deficiency) of revenues over (under) expenditures	(1,737,941)	90,046	(5,054,727)	(144,291)	(6,846,913)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	2,360,426	6,387,319	15,200,134	334,824	24,282,703
Interfund transfers out	<u>(41,300)</u>	<u>-</u>	<u>(6,874,662)</u>	<u>-</u>	<u>(6,915,962)</u>
Total other financing sources (uses)	<u>2,319,126</u>	<u>6,387,319</u>	<u>8,325,472</u>	<u>334,824</u>	<u>17,366,741</u>
Net change in fund balances	581,185	6,477,365	3,270,745	190,533	10,519,828
FUND BALANCES AT JULY 1, 2003	<u>6,438,481</u>	<u>-</u>	<u>5,553,516</u>	<u>118,040</u>	<u>12,110,037</u>
FUND BALANCES AT JUNE 30, 2004	<u>\$ 7,019,666</u>	<u>\$ 6,477,365</u>	<u>\$ 8,824,261</u>	<u>\$ 308,573</u>	<u>\$ 22,629,865</u>

PART II

COMPLIANCE AND INTERNAL CONTROL

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards

Comptroller
Department of Accounting and General Services
State of Hawaii

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Department of Accounting and General Services, State of Hawaii, as of and for the year ended June 30, 2004, which collectively comprise the Department's basic financial statements and have issued our report thereon dated February 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We did not audit the financial statements of the proprietary fund types and component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the proprietary fund types and component unit, are based on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Accounting and General Services, State of Hawaii's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Department of Accounting and General Services, State of Hawaii's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting which we have reported to management of the Department of Accounting and General Services, State of Hawaii, in a separate letter dated February 9, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of Accounting and General Services, State of Hawaii's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes), and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 04-1 and 04-2. We also noted certain additional matters that we reported to the management of the Department of Accounting and General Services, State of Hawaii, in a separate letter dated February 9, 2005.

This report is intended solely for the information and use of the management of the Department of Accounting and General Services, State of Hawaii, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ahannine Oyadomari + Rooki CPAs, Inc.

Honolulu, Hawaii
February 9, 2005

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

Independent Auditor's Report on Compliance With Requirements
Applicable To Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133

Comptroller
Department of Accounting and General Services
State of Hawaii

Compliance

We have audited the compliance of the Department of Accounting and General Services, State of Hawaii, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The Department of Accounting and General Services, State of Hawaii's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Department of Accounting and General Services, State of Hawaii's, management. Our responsibility is to express an opinion on the Department of Accounting and General Services, State of Hawaii's, compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department of Accounting and General Services, State of Hawaii's, compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department of Accounting and General Services, State of Hawaii's compliance with those requirements.

In our opinion, the Department of Accounting and General Services, State of Hawaii, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Department of Accounting and General Services, State of Hawaii, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department of Accounting and General Services, State of Hawaii's, internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Department of Accounting and General Services, State of Hawaii, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Akamira Oyadomari & Koahe, CPAs, Inc.

Honolulu, Hawaii
February 9, 2005

Department of Accounting and General Services
State of Hawaii

Supplemental Information

Schedule of Expenditures of Federal Awards
for the year ended June 30, 2004

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
<u>U.S. General Services Administration</u>			
Donation of Federal Surplus Personal Property (See Note B)	39.003	None	\$ 5,384,962
Total U.S. General Services Administration			<u>5,384,962</u>
<u>National Endowment for the Arts</u>			
State and Regional Program	45.007	01-6100-2054	15,326
State and Regional Program	45.007	02-6100-2036	269,583
State and Regional Program	45.007	03-6100-2044	280,678
Total National Endowment for the Arts			<u>565,587</u>
<u>U.S. Elections Assistance Commission</u>			
Help America Vote Act of 2002	90.UNK	None	42,800
Total U.S. Elections Assistance Commission			<u>42,800</u>
<u>U.S. Department of Homeland Security</u>			
Passed through State Department of Defense			
State Homeland Security Grant Program II	97.073	None	108,885
Total U.S. Department of Homeland Security			<u>108,885</u>
Total Expenditures of Federal Awards			<u>\$ 6,102,234</u>

See accompanying notes to the schedule of expenditures of federal awards.

Department of Accounting and General Services
State of Hawaii
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2004

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Federal Awards includes the Federal grant activity of the Department of Accounting and General Services, State of Hawaii and is presented on the cash basis of accounting.

NOTE B - NONMONETARY ASSISTANCE

The Schedule contains values for a nonmonetary assistance program. The Donation of Federal Surplus Property program (CFDA #39.003) is presented at the fair market value of property received.

PART III
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Department of Accounting and General Services
State of Hawaii

Schedule of Findings and Questioned Costs
for the year ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements -

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes x No
- Reportable condition(s) identified that
are not considered to be material
weakness(es)? x Yes _____ None reported

Noncompliance material to financial
statements noted?

_____ Yes x No

Federal Awards -

Internal control over major programs:

- Material weakness(es) identified? _____ Yes x No
- Reportable condition(s) identified that
are not considered to be material
weakness(es)? _____ Yes x None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133?

_____ Yes x No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

39.003

Donation of Federal Surplus Personal Property

Dollar threshold used to distinguish between
type A and type B programs:

 \$ 300,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

Department of Accounting and General Services
State of Hawaii

Schedule of Findings and Questioned Costs
for the year ended June 30, 2004
(continued)

Section II - Financial Statement Findings

04-1 Policy for the Reporting of Buildings Should be Followed

Condition – DAGS was not in compliance with the State's policy of reporting buildings in its financial statements.

Criteria – Buildings should be properly reported in the financial statements

Effect – In prior years, DAGS reported as capital assets, State buildings that it maintained. In 2002, the State implemented GASB Statement 34 and accordingly revised its capital asset policy to conform with the statement. The State's revised capital asset policy provides for buildings to be reported in the departmental financial statements of the user department/agency. Cost of a building occupied by more than one department/agency should be allocated proportionately to the individual department/agency. The allocation of the cost of the buildings in the civic center area is to be provided by DAGS.

During our audit, we noted that DAGS allocated the cost of buildings used by other departments to the respective departments. However, DAGS continued to report the cost of buildings allocated to other departments, in the DAGS financial statements. Accordingly, the cost of buildings, accumulated depreciation and net assets invested in capital assets were overstated in DAGS prior year financial statements. As a result, a restatement of prior year balances were necessary to reduce the DAGS July 1, 2003 balances for buildings (\$369,475,904), accumulated depreciation (\$177,192,635) and net assets invested in capital assets (\$192,283,269).

Cause – DAGS misinterpreted the State's policy on reporting capital assets on its financial statements.

Recommendation – We recommend that DAGS follow the State's policy on reporting buildings on its financial statements.

Management's Response – See attached.

Department of Accounting and General Services
State of Hawaii

Schedule of Findings and Questioned Costs
for the year ended June 30, 2004
(continued)

Section II - Financial Statement Findings (continued)

04-2 State Procurement Laws Prohibiting Parceling Should be Followed

Condition – We noted one instance of noncompliance with State Law, which prohibits parceling for the purchase of goods, services or construction.

Criteria – Hawaii State Law prohibits parceling – the dividing of purchases of the same, like or related services into several purchases with the purpose of evading State procurement laws.

Effect – Because of the parceling, it is uncertain whether the services received could have been obtained at a lower contract price since competitive bids were not obtained.

Cause – The department agency misinterpreted the State law on parceling.

Recommendation – We recommend that DAGS develop the necessary controls to ensure that procurement laws including laws relating to parceling are followed.

Management's Response – See attached.

Department of Accounting and General Services
State of Hawaii

Schedule of Findings and Questioned Costs
for the year ended June 30, 2004
(continued)

Section III - Federal Award Findings and Questioned Costs

None

Department of Accounting and General Services
State of Hawaii

Schedule of Prior Findings and Questioned Costs
for the year ended June 30, 2004

Finding

Status

None

PART IV

RESPONSE OF THE DEPARTMENT OF ACCOUNTING AND
GENERAL SERVICES,
STATE OF HAWAII

LINDA LINGLE
Governor



Russ K. Saito
Comptroller

Katherine H. Thomason
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES
P.O. BOX 119
HONOLULU, HAWAII 96810-0119

Q

May 27, 2005

Mr. Edward K. Kosaki
Akamine, Oyadomari & Kosaki CPA's, Inc.
1440 Kapiolani Blvd., Suite 900
Honolulu, Hawaii 96814

Dear Mr. Kosaki:

We have reviewed your report on the Financial Statements with Accompanying Information for the Year Ended June 30, 2004. We generally concur with your findings and recommendations.

Attached are our responses and corrective action plans on your audit findings and recommendations. Thank you for this opportunity to respond.

Sincerely,

A handwritten signature in cursive script that reads "Russ K. Saito".

RUSS K. SAITO
State Comptroller

Enclosures

04-1 Policy for the Reporting of Buildings Should be Followed

Condition - DAGS was not in compliance with the State's policy of reporting buildings in its financial statements.

Criteria - Buildings should be properly reported in the financial statements.

Effect – In prior years, DAGS reported as capital assets, State buildings that it maintained. In 2002, the State implemented GASB Statement 34 and accordingly revised its capital asset policy to conform with the statement. The State's revised capital asset policy provides for buildings to be reported in the departmental financial statements of the user department/agency. Cost of a building occupied by more than one department/agency should be allocated proportionately to the individual department/agency. The allocation of the cost of buildings in the civic center area is to be provided by DAGS.

During our audit, we noted that DAGS allocated the cost of buildings used by other departments to the respective departments. However, DAGS continued to report the cost of buildings allocated to other departments, in the DAGS financial statements. Accordingly, the cost of buildings, accumulated depreciation and net assets invested in capital assets was overstated in DAGS prior year financial statements. As a result, a restatement of prior year balances was necessary to reduce the DAGS July 1, 2003 balances for buildings (\$369,475,904), accumulated depreciation (\$177,192,635) and net assets invested in capital assets (\$192,283,269).

Cause - DAGS misinterpreted the State's policy on reporting capital assets on its financial statements.

Recommendation - We recommend that DAGS follow the State's policy on reporting capital assets on its financial statements.

Management's Response – The department began reporting capital assets on its financial statements in fiscal year 2002 in accordance with accounting principles generally accepted in the United States of America (GAAP). Akamine, Oyadomari, & Kosaki CPAs, Inc. (Akamine) identified the department's non compliance with the State's policy of reporting capital assets in the department's financial statements as a reportable condition because the capital assets' beginning balance represent 37.3% of total assets.

The department will comply with the State's policy of reporting capital assets in its financial statements.

04-2 State Procurement Laws Prohibiting Parceling Should be Followed

Condition – We noted one instance of noncompliance with State Law, which prohibits parceling of the purchase of goods, services or construction.

Criteria – Hawaii State Law prohibits parceling – the dividing of purchases of the same, like or related services into several purchases with the purpose of evading State procurement laws.

Effect – Because of the parceling, it is uncertain whether the services received could have been obtained at a lower contract price since competitive bids were not obtained.

Cause – The department agency misinterpreted the State law on parceling.

Recommendation - We recommend that DAGS develop the necessary controls to ensure that procurement laws including laws relating to parceling are followed.

Management's Response – The State agency cited does not receive federal financial assistance. The procurement violation was reported to the State Procurement Office (SPO). The SPO instructed the State agency's administrator and managers to comply with the State's procurement laws, rules and regulations, and policies and procedures. As a follow-up to Akamine's audit finding, the Comptroller requested that the Audit Division conduct an audit of the State agency cited to determine if there is further evidence of parceling. The audit is in progress.

The department will establish controls to comply with the State's procurement laws to prevent parceling. Appropriate corrective actions will be implemented. The corrective actions will include training, by SPO, of the personnel that procure goods and services for the State agency cited, on the State's procurement laws. In addition, the State agency's purchase orders that are issued over the next 6-months will be monitored for compliance.